
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2024

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: **0-31641**

SCI ENGINEERED MATERIALS, INC.

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

31-1210318
(I.R.S. Employer
Identification No.)

2839 Charter Street, Columbus, Ohio 43228
(Address of principal executive offices) (Zip Code)

(614) 486-0261
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address, and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, without par value	SCIA	OTCQB

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer" "accelerated filer" "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

4,568,127 shares of Common Stock, without par value, were outstanding at November 1, 2024.

FORM 10-Q
SCI ENGINEERED MATERIALS, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SCI ENGINEERED MATERIALS, INC.

BALANCE SHEETS

ASSETS

	September 30, 2024	December 31, 2023
	(UNAUDITED)	
Current Assets		
Cash and cash equivalents	\$ 7,656,046	\$ 5,673,994
Investments - marketable securities, short term	509,478	1,000,000
Accounts receivable		
Trade, less allowance for doubtful accounts of \$15,000	946,222	854,501
Tax - Employee Retention Credit	40,539	40,539
Other	28,919	15,607
Inventories, net	1,790,209	4,654,398
Prepaid purchase orders	490,858	1,123,980
Prepaid expenses	102,588	214,458
Total current assets	11,564,859	13,577,477
Property and Equipment, at cost		
Machinery and equipment	8,758,325	8,677,446
Furniture and fixtures	153,957	129,476
Leasehold improvements	744,297	744,297
Construction in progress	161,809	52,097
	9,818,388	9,603,316
Less accumulated depreciation and amortization	(7,553,523)	(7,359,310)
Property and equipment, net	2,264,865	2,244,006
Other Assets		
Investments, net - marketable securities, long term	1,499,000	994,478
Right of use asset, net	1,267,242	592,170
Other assets	67,627	78,289
Total other assets	2,833,869	1,664,937
TOTAL ASSETS	\$ 16,663,593	\$ 17,486,420

The accompanying notes are an integral part of these financial statements.

SCI ENGINEERED MATERIALS, INC.

BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>September 30,</u> <u>2024</u>	<u>December 31,</u> <u>2023</u>
Current Liabilities	(UNAUDITED)	
Finance lease obligations, current portion	\$ —	\$ 49,149
Operating lease obligations, current portion	160,728	111,193
Accounts payable	540,794	385,489
Customer deposits	1,735,251	4,871,035
Accrued compensation	420,288	406,971
Accrued expenses and other	156,644	120,624
Total current liabilities	<u>3,013,705</u>	<u>5,944,461</u>
Deferred tax liability	84,934	69,846
Operating lease obligations, net of current portion	1,108,533	492,080
Total liabilities	<u>4,207,172</u>	<u>6,506,387</u>
Shareholders' Equity		
Common stock, no par value, authorized 15,000,000 shares; 4,568,127 and 4,530,207 shares issued and outstanding, respectively	10,706,323	10,662,343
Additional paid-in capital	2,233,384	2,233,384
Accumulated deficit	(483,286)	(1,915,694)
Total shareholders' equity	<u>12,456,421</u>	<u>10,980,033</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 16,663,593</u>	<u>\$ 17,486,420</u>

The accompanying notes are an integral part of these financial statements.

SCI ENGINEERED MATERIALS, INC.
STATEMENTS OF INCOME
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023
(UNAUDITED)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Revenue	\$ 3,883,237	\$ 7,700,123	\$ 17,819,042	\$ 20,954,960
Cost of revenue	2,793,944	6,313,460	13,935,694	16,990,090
Gross profit	1,089,293	1,386,663	3,883,348	3,964,870
General and administrative expense	476,572	433,656	1,426,406	1,285,152
Research and development expense	130,014	121,554	489,879	372,407
Marketing and sales expense	123,596	121,244	404,486	358,058
Income from operations	359,111	710,209	1,562,577	1,949,253
Interest income, net	107,391	81,252	290,908	194,143
Income before provision for income taxes	466,502	791,461	1,853,485	2,143,396
Income tax expense	105,924	212,677	421,077	515,233
NET INCOME	\$ 360,578	\$ 578,784	\$ 1,432,408	\$ 1,628,163
Earnings per share - basic and diluted (Note 7)				
Income per common share				
Basic	\$ 0.08	\$ 0.13	\$ 0.32	\$ 0.36
Diluted	\$ 0.08	\$ 0.13	\$ 0.31	\$ 0.36
Weighted average shares outstanding				
Basic	4,564,259	4,530,207	4,546,269	4,528,524
Diluted	4,568,863	4,561,708	4,550,820	4,559,208

The accompanying notes are an integral part of these financial statements.

SCI ENGINEERED MATERIALS, INC.
STATEMENTS OF SHAREHOLDERS' EQUITY
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023
(UNAUDITED)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total
Balance 6/30/2024	\$ 10,706,323	\$ 2,233,384	\$ (843,864)	\$ 12,095,843
Net income	—	—	360,578	360,578
Balance 9/30/2024	<u>\$ 10,706,323</u>	<u>\$ 2,233,384</u>	<u>\$ (483,286)</u>	<u>\$ 12,456,421</u>
Balance 6/30/2023	\$ 10,662,343	\$ 2,233,384	\$ (3,060,214)	\$ 9,835,513
Net income	—	—	578,784	578,784
Balance 9/30/2023	<u>\$ 10,662,343</u>	<u>\$ 2,233,384</u>	<u>\$ (2,481,430)</u>	<u>\$ 10,414,297</u>
Balance 12/31/2023	\$ 10,662,343	\$ 2,233,384	\$ (1,915,694)	\$ 10,980,033
Common stock issued (Note 5)	43,980	—	—	43,980
Net income	—	—	1,432,408	1,432,408
Balance 9/30/2024	<u>\$ 10,706,323</u>	<u>\$ 2,233,384</u>	<u>\$ (483,286)</u>	<u>\$ 12,456,421</u>
Balance 12/31/2022	\$ 10,618,435	\$ 2,231,807	\$ (4,104,593)	\$ 8,745,649
Adoption of ASU 2016-13 (Note 3)	—	—	(5,000)	(5,000)
Stock based compensation expense (Note 5)	—	1,577	—	1,577
Common stock issued (Note 5)	43,908	—	—	43,908
Net income	—	—	1,628,163	1,628,163
Balance 9/30/2023	<u>\$ 10,662,343</u>	<u>\$ 2,233,384</u>	<u>\$ (2,481,430)</u>	<u>\$ 10,414,297</u>

The accompanying notes are an integral part of these financial statements.

SCI ENGINEERED MATERIALS, INC.
STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023
(UNAUDITED)

	Nine Months Ended September 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,432,408	\$ 1,628,163
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and accretion	363,245	344,291
Amortization of patents	3,700	3,311
Stock based compensation	43,980	45,485
Gain on disposal of equipment	—	(9,142)
Deferred taxes	15,088	367,131
Inventory reserve	1,530	3,990
Changes in operating assets and liabilities:		
Accounts receivable	(105,033)	(395,311)
Inventories	2,862,659	(1,013,294)
Prepaid purchase orders	633,122	(1,171,740)
Prepaid expenses	111,870	44,807
Other assets	(7,038)	7,579
Accounts payable	155,305	(36,868)
Operating lease assets and liabilities, net	(9,084)	(6,707)
Customer deposits	(3,135,784)	2,410,832
Accrued liabilities	44,161	106,031
Net cash provided by operating activities	<u>2,410,129</u>	<u>2,328,558</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of equipment	—	16,000
Purchases of marketable securities	(1,000,000)	(509,478)
Proceeds from maturities of marketable securities	1,000,000	489,265
Purchases of property and equipment	(378,928)	(398,360)
Net cash used in investing activities	<u>(378,928)</u>	<u>(402,573)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on finance lease obligations	(49,149)	(75,338)
NET INCREASE IN CASH	\$ 1,982,052	\$ 1,850,647
CASH - Beginning of year	5,673,994	3,947,966
CASH - End of period	\$ 7,656,046	\$ 5,798,613
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 706	\$ 3,639
Income taxes	325,733	124,424
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Increase in asset retirement obligation	5,175	5,175

The accompanying notes are an integral part of these financial statements.

SCI ENGINEERED MATERIALS, INC
NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Business Organization and Purpose

SCI Engineered Materials, Inc. (“SCI,” “we” or the “Company”), an Ohio corporation, was incorporated in 1987. The Company operates in one segment as a global supplier and manufacturer of advanced materials for Physical Vapor Deposition (“PVD”) thin film applications. The Company is focused on markets within the photonics industry including Aerospace, Automotive, Defense, Glass, Optical Coatings and Solar, and substantially all revenues are generated from customers with multi-national operations. The Company develops innovative customized solutions enabling commercial success through collaboration with end users and Original Equipment Manufacturers.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation - The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for fair presentation of the results of operations for the periods presented have been included. The financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2023. Interim results are not necessarily indicative of results for the full year.

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition - The Company enters into contracts with its customers that generally represent purchase orders specifying general terms and conditions, order quantities and per unit product prices. The Company has determined that each unit of product purchased represents a separate performance obligation. The Company satisfies its performance obligations and recognizes revenue at a point in time when control of a unit of product is transferred to the customer. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products. For the majority of product sales, transfer of control occurs when the products are shipped from the Company’s manufacturing facility to the customer. The cost of delivering products to the Company’s customers is recorded as a component of the cost of products sold. Those costs may include the amounts paid to a third party to deliver the products. Any freight costs billed to and paid by a customer are included in revenue.

The Company considers collectability of amounts due under a contract to be probable upon inception of a sale based on an evaluation of the creditworthiness of each customer. The Company sells its products typically under agreements with payment terms of 30-60 days. The Company does not normally include extended payment terms or significant financing components in contracts with customers. The majority of the Company’s contracts have an obligation to transfer products within one year. Thus, the Company elects to use the practical expedient where incremental cost of obtaining a contract, such as commissions, is expensed when incurred because the amortization period for those costs is one year or less. The Company treats shipping and handling activities that occur after control of the product transfers as fulfillment activities, and therefore, does not account for shipping and handling costs as a separate performance obligation. Customer deposits are funds received in advance from customers and are recognized as revenue when the Company has transferred control of product to the customer. Product revenues are recognized upon shipment of goods as the customer has assumed the significant risks and rewards of ownership and the Company is entitled to payment at this point. Service revenues are recognized upon completion as the customer cannot realize the benefit of the service until fully completed.

Revenue from the photonics industry exceeded 99% of total revenue during the nine months ended September 30, 2024 and 2023. The top two customers represented 88% and 89% of total revenue for the nine months ended September 30, 2024 and 2023, respectively. The Company is selling multiple products to its top two customers. International shipments were 1% of total revenue for the nine months ended September 30, 2024 and 2023.

SCI ENGINEERED MATERIALS, INC
NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

Note 2. Summary of Significant Accounting Policies (continued)

Contract assets – The following table presents changes in the Company’s contract assets during the nine months ended September 30, 2024 and 2023:

	Balance at beginning of period	Billings	Payments received	Balance at end of period
Nine months ended September 30, 2024				
Accounts receivable	\$ 854,501	\$ 17,819,042	\$ (17,727,321)	\$ 946,222
Nine months ended September 30, 2023				
Accounts receivable	\$ 842,647	\$ 20,954,960	\$ (20,578,781)	\$ 1,218,826

Customer deposits – Amounts that have been invoiced are recognized in accounts receivable, customer deposits or revenue, depending on whether the revenue recognition criteria have been met. Customer deposits represent amounts billed for which revenue has not yet been recognized. Customer deposits typically relate to uncompleted purchase orders which have been partially paid for by customers prior to performance of those services or transfer of control of the product. The following table presents changes in contract liabilities during the nine months ended September 30, 2024 and 2023:

	Balance at beginning of period	Billings	Recognized revenue	Balance at end of period
Nine months ended September 30, 2024				
Contract Liabilities: Customer deposits	\$ 4,871,035	\$ 9,501,877	\$ (12,637,661)	\$ 1,735,251
Nine months ended September 30, 2023				
Contract Liabilities: Customer deposits	\$ 1,825,595	\$ 18,185,500	\$ (15,774,668)	\$ 4,236,427

Employee Retention Credit (ERC) - The Company qualified for federal government assistance through Employee Retention Credit provisions of the Consolidated Appropriations Act of 2021 during 2021 and 2020. The purpose of the Employee Retention Credit was to encourage employers to keep employees on the payroll, even if they were not working during the covered period because of the coronavirus outbreak. These funds were recorded in the Statements of Income as an offset to payroll costs in their respective expense lines and as a tax receivable on the balance sheets. A balance of \$40,539 appears as a tax receivable on the balance sheets at September 30, 2024 and December 31, 2023. The Company expects to receive the full ERC balance.

Note 3. Recent Accounting Pronouncements

In September 2016, the FASB issued ASU No. 2016-13 “Credit Losses – Measurement of Credit Losses on Financial Instruments.” ASU No. 2016-13 significantly changes how entities measure credit losses for most financial assets, including accounts receivable and held-to-maturity marketable securities, by replacing today’s “incurred loss” approach with an “expected loss” model under which allowances will be recognized based on expected rather than incurred losses. ASU No. 2016-13 became effective for us in the first quarter of 2023. The adoption of ASU No. 2016-13 resulted in a cumulative effect of \$5,000 and was reflected in the accompanying Statement of Shareholders’ Equity in the first quarter of 2023.

Note 4. Investments

Money market funds – where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. The Company invested in a money market fund which had a fair value of \$3,155,750 and \$3,035,547 at September 30, 2024 and December 31, 2023, respectively. This is valued at original cost plus interest and is included in Cash and cash equivalents on the balance sheet.

SCI ENGINEERED MATERIALS, INC
NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

Note 4. Investments (continued)

As of September 30, 2024 and December 31, 2023, the Company held investments in corporate bonds rated A- or higher, and U.S. government securities that are required to be measured for disclosure purposes at fair value on a recurring basis. The bonds and government securities are considered held-to-maturity and are recorded at amortized cost on the balance sheet. These investments are considered level 2 as detailed in the table below. The Company considers investments which will mature in the next twelve months and interest receivable on the long-term bonds as current assets. The remaining investments are considered non-current assets including the investment in marketable securities which the Company intends to hold longer than twelve months. The fair value of these investments was estimated using recently executed transactions and market price quotations. At September 30, 2024, the length of time until maturity of the bonds currently owned ranged from 8 to 32 months. The amortized cost, allowance for credit losses, fair value, and the related unrecognized gains and losses of these investments, were as follows:

	Amortized Cost	Gross Unrealized Losses	Gross Unrealized Gains	Fair Value
September 30, 2024				
Corporate bonds	\$ 1,500,000	\$ —	\$ 913	\$ 1,500,913
U.S. government treasuries	509,478	—	5,691	515,169
Total investments	<u>\$ 2,009,478</u>	<u>\$ —</u>	<u>\$ 6,604</u>	<u>\$ 2,016,081</u>
Allowance for credit losses	(1,000)			
Total investments, net	<u>\$ 2,008,478</u>			
December 31, 2023				
Corporate bonds	\$ 1,500,000	\$ (9,078)	\$ —	\$ 1,490,922
U.S. government treasuries	509,478	(1,786)	—	507,692
Total investments	<u>\$ 2,009,478</u>	<u>\$ (10,864)</u>	<u>\$ —</u>	<u>\$ 1,998,614</u>
Allowance for credit losses	(15,000)			
Total investments, net	<u>\$ 1,994,478</u>			

The Company uses an “expected credit loss” measurement objective for the recognition of credit losses for held-to-maturity securities at the time the financial asset is originated or acquired. The Company monitors the credit quality of debt securities classified as held-to-maturity using their respective credit ratings and updates them on a quarterly basis with the latest assessment completed on September 30, 2024. Our allowance for credit losses was \$1,000 and \$15,000 at September 30, 2024 and December 31, 2023, respectively. Expected credit losses are adjusted each period as necessary for changes in expected lifetime credit losses. The credit loss calculations for held-to-maturity securities are based upon historical default and recovery rates of bonds rated with the same rating as the current portfolio. An adjustment factor is applied to these credit loss calculations based upon management’s assessment of the expected impact from current economic conditions on our investments.

Note 5. Common Stock and Stock Options

Stock based compensation cost for all stock awards is based on the grant date fair value and recognized over the required service (vesting) period. Noncash stock-based compensation expense was \$43,980 and \$45,485 for the nine months ended September 30, 2024 and 2023, respectively.

Employees received compensation of 8,709 and 10,683 aggregate shares of common stock of the Company during the nine months ended September 30, 2024 and 2023, respectively. These shares had an aggregate value of \$43,980 and \$43,908 and were recorded as non-cash stock compensation expense in the financial statements for the nine months ended September 30, 2024 and 2023, respectively.

During the three months ended September 30, 2024, 30,958 stock options were exercised by employees via cashless exercise. 10,715 options were exercised at \$1.25 per share and 20,243 options were exercised at \$0.84 per share. During the nine months

SCI ENGINEERED MATERIALS, INC
NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

Note 5. Common Stock and Stock Options (continued)

ended September 30, 2024, 35,359 stock options were exercised by employees via cashless exercise. 15,116 options were exercised at \$1.25 per share and 20,243 options were exercised at \$0.84 per share.

The cumulative status of options granted and outstanding at September 30, 2024 and December 31, 2023, as well as any options which became exercisable in connection with the Company's stock option plans is summarized as follows:

Employee Stock Options

	Stock Options	Weighted Average Exercise Price
Outstanding at January 1, 2023	41,304	\$ 1.05
Outstanding at December 31, 2023	41,304	\$ 1.05
Exercised	(35,359)	1.02
Outstanding at September 30, 2024	5,945	\$ 1.25
Options exercisable at December 31, 2023	41,304	\$ 1.05
Options exercisable at September 30, 2024	5,945	\$ 1.25

Exercise price for options was \$1.25 at September 30, 2024, with a contractual life of 3.6 years.

Note 6. Inventories

Inventories consisted of the following:

	September 30, 2024	December 31, 2023
Raw materials	\$ 444,677	\$ 3,222,642
Work-in-process	1,096,825	1,240,067
Finished goods	257,749	199,201
	1,799,251	4,661,910
Inventory reserve	(9,042)	(7,512)
	<u>\$ 1,790,209</u>	<u>\$ 4,654,398</u>

SCI ENGINEERED MATERIALS, INC
NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

Note 7. Earnings Per Share

Basic income per share is calculated as net income divided by the weighted average of common shares outstanding. Diluted earnings per share is calculated as net income divided by the diluted weighted average number of common shares. Diluted weighted average number of common shares gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. Diluted earnings per share exclude all diluted potential shares if their effect is anti-dilutive. All common stock options listed in Note 5 that were out-of-the-money or anti-dilutive were excluded from diluted earnings per share. The following is provided to reconcile the earnings per share calculations:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Net income	\$ 360,578	\$ 578,784	\$ 1,432,408	\$ 1,628,163
Weighted average common shares outstanding - basic	4,564,259	4,530,207	4,546,269	4,528,524
Effect of dilution - stock options	4,604	31,501	4,551	30,684
Weighted average shares outstanding - diluted	<u>4,568,863</u>	<u>4,561,708</u>	<u>4,550,820</u>	<u>4,559,208</u>

Note 8. Line of Credit

The Company renewed its line of credit with Fifth Third Bank for \$1 million during August 2024. This line of credit has a maturity date of August 29, 2025 and bears interest equal to the rate of interest per annum established by Fifth Third Bank as its Prime Rate. No amounts were drawn on this line of credit as of September 30, 2024.

Note 9. Income Taxes

The provision for income taxes for the three and nine months ended September 30, 2024 and 2023 is based on our projected annual effective tax rate, adjusted for permanent differences and specific items that are required to be recognized in the period in which they are incurred. The effective tax rate was 22.7% and 26.9% for the three months ended September 30, 2024 and 2023, respectively, and was 22.7% and 24.0% for the nine months ended September 30, 2024 and 2023, respectively. The difference between the effective tax rate and the marginal rate is primarily due to the effect of state and local taxes.

The following table presents the income tax expense:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Federal	\$ 97,963	\$ 192,394	\$ 389,537	\$ 476,128
State and local	7,961	20,283	31,540	39,105
	<u>\$ 105,924</u>	<u>\$ 212,677</u>	<u>\$ 421,077</u>	<u>\$ 515,233</u>

Deferred tax assets and liabilities result from temporary differences in the recognition of income and expense for tax and financial reporting purposes. As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred taxes. Accordingly, management determined that no valuation allowance was necessary at September 30, 2024. The deferred tax liability was \$84,934 at September 30, 2024 and \$69,846 at December 31, 2023.

SCI ENGINEERED MATERIALS, INC
NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

Note 10. Operating Lease

The Company entered into an operating lease with a third party on March 18, 2014 for its headquarters in Columbus, Ohio. The terms of the lease include monthly payments ranging from \$9,200 to \$9,700 with a maturity date of November 30, 2024. During the nine months ended September 30, 2024, the Company modified its operating lease, which included changes to the lease terms and adjustments to the lease payments. The Company extended the lease period for an additional five years with a new maturity date of November 30, 2029. The terms of the lease include monthly payments ranging from \$24,700 to \$28,900. The modifications did not result in a change in the classification of the lease, which continues to be classified as an operating lease. The lease liability was remeasured using the discount rate as of the effective date of the modification. The right of use asset was adjusted by the amount of the remeasurement of the lease liability. There are no restrictions or covenants associated with the lease. The lease costs were approximately \$29,200 and \$28,600 for the three months ended September 30, 2024 and 2023, respectively, and \$87,600 and \$85,900 during the nine months ended September 30, 2024 and 2023, respectively. Additionally, the variable lease costs were approximately \$11,500 for the three months ended September 30, 2024 and 2023, and \$50,000 and \$45,000 during the nine months ended September 30, 2024 and 2023, respectively.

The following is a maturity analysis, by year, of the annual undiscounted cash outflows of the operating lease liabilities as of September 30, 2024:

2024	\$	44,212		
2025		297,878		
2026		309,793		
2027		322,184		
2028 and beyond		653,446		
Total minimum lease payments		1,627,513		
Less debt discount		358,252		
Total operating lease obligations		<u>\$ 1,269,261</u>		
		<u>2024</u> <u>2023</u>		
Right of use asset obtained in exchange for lease liability	\$	499,125	\$	—
Operating cash outflows from operating leases - year-to-date		84,811		78,357
Weighted average remaining lease term – operating leases		5.2 years		1.2 years
Weighted average discount rate – operating leases		8.5 %		5.5 %

Note 11. Finance Lease

The Company previously leased certain equipment under finance leases. The final payment for the only existing lease was made during the third quarter of 2024.

The equipment under finance lease at September 30, 2024, and December 31, 2023, is included in the accompanying balance sheets as follows:

	<u>September 30, 2024</u>	<u>December 31, 2023</u>
Machinery and equipment	\$ —	\$ 306,973
Less accumulated depreciation and amortization	—	107,440
Net book value	<u>\$ —</u>	<u>\$ 199,533</u>

These assets were amortized over a period of ten years using the straight-line method and amortization is included in depreciation expense. Finance lease costs totaled \$8,054 and \$25,386 for the three months ended September 30, 2024 and 2023, respectively, and \$41,149 and \$75,338 for the nine months ended September 30, 2024 and 2023, respectively.

**SCI ENGINEERED MATERIALS, INC
NOTES TO FINANCIAL STATEMENTS**

(UNAUDITED)

Note 11. Finance Lease (continued)

The finance leases were structured such that ownership of the leased asset reverted to the Company at the end of the lease term. Accordingly, leased assets were depreciated using the Company's normal depreciation methods and lives. Ownership of certain assets were transferred to the Company in accordance with the terms of the leases and these assets have been excluded from the leased asset disclosure above.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Financial Statements and Notes contained herein and with those in our Form 10-K for the year ended December 31, 2023.

Except for the historical information contained herein, the matters discussed in this Quarterly Report on Form 10-Q include certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding our intent, belief, and expectations, such as statements concerning our future profitability and operating and growth strategy. Words such as "believe," "anticipate," "expect," "will," "may," "should," "intend," "plan," "estimate," "predict," "potential," "continue," "likely" and similar expressions are intended to identify forward-looking statements. Investors are cautioned that all forward-looking statements contained in this Quarterly Report on Form 10-Q and in other statements we make involve risks and uncertainties including, without limitation, the factors set forth under the caption "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2023, and other factors detailed from time to time in our other filings with the Securities and Exchange Commission. One or more of these factors have affected, and in the future could affect our business and financial condition and could cause actual results to differ materially from plans and projections. Although we believe the assumptions underlying the forward-looking statements contained herein are reasonable, there can be no assurance that any of the forward-looking statements included in this Quarterly Report on Form 10-Q will prove to be accurate. Considering the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved.

Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statements are made or reflect the occurrence of unanticipated events, unless necessary to prevent such statements from becoming misleading. New factors emerge from time to time, and it is not possible for us to predict all factors, nor can we assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Executive Summary

For the three months ended September 30, 2024, we had total revenue of \$3,883,237 compared to \$7,700,123 for the three months ended September 30, 2023. For the nine months ended September 30, 2024, we had total revenue of \$17,819,042 compared to \$20,954,960 for the nine months ended September 30, 2023. Volume was similar year to year; however, lower raw material costs was the key factor that contributed to the decrease in total revenue.

Gross profit was \$1,089,293 for the three months ended September 30, 2024, compared to \$1,386,663 for the same three months in 2023. Gross profit was \$3,883,348, for the nine months ended September 30, 2024, compared to \$3,964,870 for the same nine months in 2023. Lower total revenue due to lower raw material costs was the main factor which contributed to the gross profit decrease.

Operating expenses were \$730,182, and \$676,454 for the three months ended September 30, 2024, and 2023, respectively and \$2,320,771 and \$2,015,617 for the nine months ended September 30, 2024, and 2023, respectively.

Income from operations was \$359,111, and \$710,209 for the three months ended September 30, 2024, and 2023, respectively, and \$1,562,577 and \$1,949,253 for the nine months ended September 30, 2024, and 2023, respectively. Lower gross profit and higher operating expenses contributed to the decrease.

Consistent with our growth strategy, we have identified niche markets that can benefit from our expertise in custom powder solutions, such as near-infrared doped phosphors and near infrared applications. These applications enable extended life of phosphors for specific nighttime identification needs of defense personnel and first responders. On June 4, 2024, we announced a five-year manufacturing agreement with Battle Sight Technologies to produce ColdFIRE® powder for defense applications.

New initiatives are also being pursued that utilize our vacuum hot presses, cold isostatic press, and kilns for increased production and development projects, including diffusion bonding. We continue to invest in developing new products for all

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

our markets including specialty bonding processes for Aerospace customers and innovative applications for Architectural Glass and Thin Film Solar customers. Those products continue to involve research and development expense to enable customer evaluation and accelerate time to market.

Several issues continue to affect national and global market conditions. First, inflation continues to impact labor, certain raw material costs and transportation expenses. We seek to pass these increases on to customers but are unable to predict how future or sustained inflationary pressure may impact our results. Second, supply chain disruptions continue to impact customers' businesses in certain markets. We are monitoring the impact of the three-day International Longshoreman Association's (ILA) strike on October 1-3, 2024 and further developments to be resolved prior to the ILA extended contract date of January 15, 2025. Thus far, we have not experienced material adverse effects regarding sourcing of raw materials or product shipments; however, timely deliveries and sourcing of certain materials is of increased concern. Third, increased political uncertainties continue to affect global markets. Although we currently have no customers or suppliers in Russia, Ukraine, or the Middle East, we continue to monitor the situations as some raw material comes from Russia for the PVD industry. We are actively maintaining contact with our suppliers and customers, identifying additional suppliers, and adapting to our customers' specific circumstances and forecasts.

RESULTS OF OPERATIONS

Three and nine months ended September 30, 2024 (unaudited) compared to three and nine months ended September 30, 2023 (unaudited):

Revenue

For the three months ended September 30, 2024, we had total revenue of \$3,883,237 compared to \$7,700,123 for the three months ended September 30, 2023. For the nine months ended September 30, 2024, we had total revenue of \$17,819,042 compared to \$20,954,960 for the nine months ended September 30, 2023. Volume was similar year to year; however, lower raw material costs was the key factor that contributed to the decrease in total revenue.

Gross profit

Gross profit was \$1,089,293 for the three months ended September 30, 2024, compared to \$1,386,663 for the same three months in 2023. Gross profit as a percentage of revenue (gross margin) was 28.1% for the third quarter of 2024 compared to 18.0% for the third quarter of 2023. While lower raw material costs contributed to the decrease in gross profit, the increase in gross margin benefited from lower material costs. Gross profit was \$3,883,348 for the nine months ended September 30, 2024, compared to \$3,964,870 for the same nine months in 2023 and gross margin was 21.8% and 18.9% for the first nine months of 2024 and 2023, respectively.

General and administrative expense

General and administrative expense for the three months ended September 30, 2024, and 2023, was \$476,572, and \$433,656, respectively, an increase of 9.9%. The increase can be attributed to higher compensation and benefits of \$21,367, which included increased staff, and higher professional fees and Information Technology consulting services of \$34,254. General and administrative expense for the nine months ended September 30, 2024, and 2023, was \$1,426,406 and \$1,285,152, respectively, an increase of 11.0%. The increase can be attributed to higher compensation and benefits of \$103,226, which included increased staff, higher professional fees and Information Technology consulting services of \$53,184.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Research and development expense

Research and development expense for the three months ended September 30, 2024, was \$130,014, compared to \$121,554 for the same period in 2023, an increase of 7.0%. This was due to an increase in ongoing research materials and supplies of \$14,694, and higher compensation and benefits of \$20,040, partially offset by lower outside consulting expense of \$15,489. Research and development expense for the nine months ended September 30, 2024, was \$489,879, compared to \$372,407 for the same period in 2023, an increase of 31.5%. This was due to an increase in ongoing research materials and supplies of \$125,161, and higher compensation and benefits of \$53,983 which included increased staff, partially offset by lower outside consulting expense of \$49,687. Specialty materials are being researched for use in niche markets which include custom applications and additive manufacturing. Our development efforts utilize a disciplined innovation approach focused on accelerating time to market for these applications and involve ongoing research and development expense.

Marketing and sales expense

Marketing and sales expense was \$123,596, and \$121,244 for the three months ended September 30, 2024, and 2023, respectively, an increase of 1.9%. Compensation and benefits expense increased \$6,543 during the three months ended September 30, 2024, compared to the same period in 2023. Marketing and sales expense was \$404,486 and \$358,058 for the nine months ended September 30, 2024, and 2023, respectively, an increase of 13.0%. Compensation and benefits expense increased \$48,308, which included increased staff, during the nine months ended September 30, 2024, compared to the same period in 2023.

Stock compensation expense

Stock-based compensation costs were \$0 for the three months ended September 30, 2024 and 2023, and \$43,980 and \$45,485 for the nine months ended September 30, 2024 and 2023, respectively. Compensation expense for all stock-based awards is based on the grant date fair value and recognized over the required service (vesting) period. There was no unrecognized non-cash stock-based compensation expense at September 30, 2024.

Interest

Net interest income was \$107,391 and \$81,252 for the three months ended September 30, 2024, and 2023, respectively and \$290,908 and \$194,143 for the nine months ended September 30, 2024, and 2023, respectively. The increase for both periods in 2024 was primarily due to higher cash and approximately \$2.0 million investment in marketable securities which benefited from an overall increase in interest rates. Interest expense related to finance lease obligations was \$28 and \$939 for the three months ended September 30, 2024, and 2023, respectively and \$706 and \$3,639 for the nine months ended September 30, 2024, and 2023, respectively.

Income taxes

Income tax expense was \$105,924 and \$212,677 for the three months ended September 30, 2024, and 2023, respectively. For the first nine months of 2024 and 2023 income tax expense was \$421,077 and \$515,233, respectively. The effective tax rate was 22.7% and 26.9% for the three months ended September 30, 2024, and 2023, respectively and 22.7% and 24.0% for the nine months ended September 30, 2024, and 2023, respectively. The deferred tax liability was \$84,934 at September 30, 2024 and \$69,846 at December 31, 2023.

Net income

Net income for the three months ended September 30, 2024, and 2023 was \$360,578 and \$578,784, respectively. For the nine months ended September 30, 2024, net income was \$1,432,408 compared to \$1,628,163 for the nine months ended September 30, 2023. Lower gross profit and higher operating expenses were slightly offset by higher interest income and lower income taxes.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Liquidity and Capital Resources

Cash and cash equivalents

As of September 30, 2024, cash and cash equivalents were \$7,656,046 compared to \$5,673,994 at December 31, 2023. Additionally, we had approximately \$2.0 million of investments in marketable securities at September 30, 2024 and December 31, 2023.

Working capital

At September 30, 2024, working capital was \$8,551,154 compared to \$7,633,016 at December 31, 2023, an increase of \$918,138, or 12.0%. Cash increased \$1,982,052, accounts receivable-trade increased \$91,721, inventories decreased \$2,864,189, prepaid purchase orders decreased \$633,122 and customer deposits decreased \$3,135,784. In addition, a short-term investment matured which was reinvested and appeared as long term on the balance sheet at September 30, 2024.

Cash from operations

Net cash provided by operating activities was \$2,410,129, and \$2,328,558 for the nine months ended September 30, 2024, and 2023, respectively. In addition to the net income generated in each period, this included depreciation and amortization of \$366,945 and \$347,602, and noncash stock-based compensation costs of \$43,980 and \$45,485 for the nine months ended September 30, 2024, and 2023, respectively. The changes in inventories, prepaid purchase orders and customer deposits compared to December 31, 2023, were related to lower raw material costs during the first nine months of 2024. Orders remain solid as customers continue to monitor their inventory very closely with continued emphasis on intra-quarter shipments while also attempting to minimize their inventory at quarter end.

Cash from investing activities

Cash of \$378,928 was used in investing activities during the nine months ended September 30, 2024, for the acquisition of production equipment. Cash of \$402,573 was used in investing activities during the nine months ended September 30, 2023. Included was \$398,360 for the acquisition of production equipment as well as the enclosure of our ceramic machining area. Continued reinvestments in marketable securities has been based on free cash flow and opportunities to earn higher returns.

Cash from financing activities

Cash of \$49,149 and \$75,338 was used in financing activities for principal payments to third parties for finance lease obligations during the nine months ended September 30, 2024, and 2023, respectively.

Debt outstanding

Total debt outstanding was \$0 at September 30, 2024. The final finance lease payment was made during the third quarter of 2024.

Off Balance Sheet Arrangements

We have no off-balance sheet arrangements including special purpose entities.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make judgments, assumptions and estimates that affect the amounts reported in the Financial Statements and accompanying notes. Note 2 to the Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2023, describes the significant accounting policies and methods used in the preparation of the Financial Statements. Estimates are used for, but not limited to, accounting for the allowance for doubtful accounts and current

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

expected credit losses, inventory allowances, property and equipment depreciable lives, patents and licenses useful lives, revenue recognition, income tax expense, deferred tax assets and liabilities, realization of deferred tax assets, stock-based compensation and assessing changes in which impairment of certain long-lived assets may occur. Actual results could differ from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the Financial Statements. The allowance for doubtful accounts is based on our assessment of the collectability of specific customer accounts and the aging of accounts receivable. If there is a deterioration of a major customer's creditworthiness or actual defaults are higher than our historical experience, our estimates of the recoverability of amounts due us could be adversely affected. Inventory purchases and commitments are based upon future demand forecasts. If there is a sudden and significant decrease in demand for our products or there is a higher risk of inventory obsolescence because of rapidly changing technology and customer requirements, we may be required to increase our inventory allowances, and our gross margin could be adversely affected. The tax valuation allowance is based on our consideration of new evidence, both positive and negative, that could affect our view of the future realization of deferred tax assets. If we were to determine not to be able to realize all or part of the deferred tax asset in the future, an adjustment to the deferred tax asset would be necessary which would reduce our net income for that period. Depreciable and useful lives estimated for property and equipment, licenses and patents are based on initial expectations of the period of time these assets and intangibles will benefit us. Changes in circumstances related to a change in our business, change in technology or other factors could result in these assets becoming impaired, which could adversely affect the value of these assets.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and implemented, can only provide reasonable assurance of achieving the desired control objectives. Management is required to apply its judgment in evaluating the cost-benefit relationship of controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely discussions regarding required disclosure.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective. Disclosure controls and procedures are defined by Rules 13a-15(e) and 15d-15(e) of the Exchange Act as controls and other procedures that are designed to ensure that information required to be disclosed by us in reports filed with the SEC under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

Inherent Limitations over Internal Controls

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements.

Management is responsible for the consistency, integrity, and presentation of information. We fulfill our responsibility by maintaining systems of internal control designed to provide reasonable assurance that assets are safeguarded, and transactions are executed in accordance with established procedures. The concept of reasonable assurance is based upon recognition that

Item 4. Controls and Procedures (continued)

the cost of the controls should not exceed the benefit derived. We believe our systems of internal control provide this reasonable assurance.

The Board of Directors exercises its oversight role with respect to our systems of internal control primarily through its Audit Committee, which is comprised of independent directors. The Committee oversees our financial reporting, quarterly reviews, and audits to assess whether their quality, integrity, and objectivity are sufficient to protect shareholders' investments.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal controls over financial reporting for the three months ended September 30, 2024 that materially affected or were reasonably likely to materially affect our disclosure controls and procedures. Additionally, there were no changes in our internal controls that could materially affect our disclosure controls and procedures after the date of their evaluation.

PART II. OTHER INFORMATION

Item 6. Exhibits

- 3(a) [Certificate of Second Amended and Restated Articles of Incorporation of Superconductive Components, Inc. \(Incorporated by reference to Exhibit 3\(a\) to the Company's initial Form 10-SB, filed on September 28, 2000\)](#)
- 3(b) [Restated Code of Regulations of Superconductive Components, Inc. \(Incorporated by reference to Exhibit 3\(b\) to the Company's initial Form 10-SB, filed on September 28, 2000\)](#)
- 3(c) [Amendment to Articles of Incorporation recording the change of the corporate name to SCI Engineered Materials, Inc. \(Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-QSB filed November 7, 2007\).](#)
- 4(a) [SCI Engineered Materials, Inc. 2011 Stock Incentive Plan \(Incorporated by reference to the Company's Definitive Proxy Statement for the 2011 Annual Meeting of Shareholders held on September 10, 2011, filed April 28, 2011\).](#)
- 4(b) [Superconductive Components, Inc. 2006 Stock Incentive Plan \(Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement for the 2006 Annual Meeting of Shareholders held on September 9, 2006, filed May 1, 2006\).](#)
- 14(a) SCI Engineered Materials Code of Ethics for the Chief Executive Officer and Chief Financial Officer (Incorporated by reference to the Company's Current Report via the Company's website at www.sciengineeredmaterials.com).
- 31.1 * [Rule 13a-14\(a\) Certification of Principal Executive Officer.](#)
- 31.2 * [Rule 13a-14\(a\) Certification of Principal Financial Officer.](#)
- 32.1 * [Section 1350 Certification of Principal Executive Officer.](#)
- 32.2 * [Section 1350 Certification of Principal Financial Officer.](#)
- 99.1 * [Press Release dated November 1, 2024 entitled "SCI Engineered Materials, Inc., Reports 2024 Third Quarter and Year-to-Date Results."](#)
- 101 * The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2024, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Balance Sheets at September 30, 2024 and December 31, 2023, (ii) Statements of Income for the three and nine months ended September 2024 and 2023, (iii) Statement of Changes in Equity for the three and nine months ended September 30, 2024 and 2023, (iv) Statements of Cash Flows for the nine months ended September 30, 2024 and 2023, and (v) Notes to Financial Statements.
- 104 * Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 1, 2024

SCI ENGINEERED MATERIALS, INC.

/s/ Jeremiah R. Young
Jeremiah R. Young, President, and Chief Executive Officer
(Principal Executive Officer)

/s/ Gerald S. Blaskie
Gerald S. Blaskie, Vice President, and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeremiah R. Young, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SCI Engineered Materials, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, which involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2024

/s/ Jeremiah R. Young

Jeremiah R. Young
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Gerald S. Blaskie, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SCI Engineered Materials, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, which involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2024

/s/ Gerald S. Blaskie

Gerald S. Blaskie
Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting
Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SCI Engineered Materials, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeremiah R. Young, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Jeremiah R. Young

Jeremiah R. Young
President and Chief Executive Officer of
SCI Engineered Materials, Inc.
(Principal Executive Officer)
November 1, 2024

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SCI Engineered Materials, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gerald S. Blaskie, Vice President, and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Gerald S. Blaskie

Gerald S. Blaskie
Vice President and Chief Financial Officer of
SCI Engineered Materials, Inc. (Principal Financial
Officer and Principal Accounting Officer)
November 1, 2024



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**SCI Engineered Materials, Inc. Reports
2024 Third Quarter and Year-to-Date Results**

COLUMBUS, Ohio (November 1, 2024) SCI Engineered Materials, Inc. ("SCI") (SCIA: OTCQB), today reported financial results for the three months and nine months ended September 30, 2024.

Jeremy Young, President and Chief Executive Officer, commented "We achieved stable order volume throughout the first nine months of this year despite signs of slower economic activity. The 2024 third quarter revenue was impacted by a decline in the cost of a key raw material before it began to recover during late September. As the Company adapted to these developments, we also added new customers in our target markets. SCI's financial condition remains strong including \$7.6 million of cash and equivalents plus approximately \$2 million of investment in marketable securities on September 30, 2024."

Revenue

Volume was similar for the 2024 year-to-date period compared to 2023. Revenue for the nine months ended September 30, 2024, was \$17,819,042 versus \$20,954,960 in 2023. For the third quarter of 2024, revenue decreased to \$3,883,237 compared to \$7,700,123 a year ago. Lower cost of a key raw material impacted revenue for both periods in 2024, especially in the third quarter of this year.

Gross profit

Gross profit declined slightly to \$3,883,348 for the 2024 year-to-date period from \$3,964,870 for the same period last year. For the 2024 third quarter, gross profit was \$1,089,293 compared to \$1,386,663 the prior year. The Company's gross profit margin benefited from lower material costs for the nine months and third quarter ended September 30, 2024, versus a year ago.

Operating expenses

Operating expenses (general and administrative, research & development, and marketing and sales) were \$2,320,771 for the nine months ended September 30, 2024, compared to \$2,015,617 last year. The Company's operating expenses for the 2024 third quarter were \$730,182 versus \$676,454 a year ago. Increased compensation and benefit expenses, which included increased staff, investments in information technology and cybersecurity, plus ongoing costs related to research and development initiatives were key factors that contributed to the 2024 year-to-date and third quarter increases.

Net interest income

Net interest income increased 50% to \$290,908 for the first nine months of 2024 from \$194,143 for the same period last year. For the 2024 third quarter, net interest income increased 32% to \$107,391 from \$81,252 a year ago. Both periods in 2024 benefited from an increase in interest rates due to the Company's higher cash balances and approximately \$2.0 million of investments in marketable securities.

Income taxes

Income tax expense was \$421,077 for the 2024 year-to-date period compared to \$515,233 the prior year. The Company's effective tax rate was 22.7% for the nine months ended September 30, 2024, versus 24.0% last year. Income tax expense for the third quarter of 2024 declined to \$105,924 from \$212,677 a year ago. The effective tax rate for the third quarter of 2024 and 2023 was 22.7% and 26.9%, respectively.

Net income

Net income was \$1,432,408, or \$0.31 per diluted share, for the first nine months of 2024 compared to \$1,628,163, or \$0.36 per diluted share, the prior year. For the 2024 third quarter, net income was \$360,578, or \$0.08 per diluted share, versus \$578,784, or \$0.13 per

diluted share, in 2023. Higher net interest income and lower income tax expenses were offset by lower gross profit and higher operating expenses for both periods in 2024 compared to last year.

Cash and cash equivalents

Cash and cash equivalents were \$7,656,046 on September 30, 2024, compared to \$5,673,994 on December 31, 2023, an increase of 35%. Additionally, there was \$2,008,478 of investment in marketable securities on September 30, 2024, versus \$1,994,478 at year-end 2023.

Debt outstanding

The Company had no debt outstanding on September 30, 2024, following a finance lease payment during the 2024 third quarter. There was \$49,149 of total debt outstanding on December 31, 2023.

About SCI Engineered Materials, Inc.

SCI Engineered Materials is a global supplier and manufacturer of advanced materials for PVD thin film applications who works closely with end users and OEMs to develop innovative, customized solutions. Additional information is available at www.sciengineeredmaterials.com or follow SCI Engineered Materials, Inc. at:

<https://www.linkedin.com/company/sci-engineered-materials.-inc> <https://www.facebook.com/sciengineeredmaterials/>
<https://x.com/SciMaterials>

This press release contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but are not limited to, all statements regarding intent, beliefs, expectations, projections, customer guidance, forecasts, plans of the Company and its management. These forward-looking statements involve numerous risks and uncertainties, including without limitation, other risks and uncertainties detailed from time to time in the Company's Securities and Exchange Commission filings, including the Company's Annual Report on Form 10-K for the year ended December 31, 2023. One or more of these factors have affected and could affect the Company's projections in the future. Therefore, there can be no assurances that the forward-looking statements included in this press release will prove to be accurate. Due to the significant uncertainties in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company, or any other persons, that the objectives and plans of the Company will be achieved. All forward-looking statements made in this press release are based on information presently available to the management of the Company. The Company assumes no obligation to update any forward-looking statements.

SCI ENGINEERED MATERIALS, INC.

BALANCE SHEETS

	<u>September 30,</u> <u>2024</u>	<u>December 31,</u> <u>2023</u>
ASSETS	(UNAUDITED)	
Current Assets		
Cash and cash equivalents	\$ 7,656,046	\$ 5,673,994
Investments - marketable securities, short term	509,478	1,000,000
Accounts receivable, less allowance for doubtful accounts	1,015,680	910,647
Inventories	1,790,209	4,654,398
Prepaid purchase orders and expenses	593,446	1,338,438
Total current assets	<u>11,564,859</u>	<u>13,577,477</u>
Property and Equipment, at cost	9,818,388	9,603,316
Less accumulated depreciation and amortization	(7,553,523)	(7,359,310)
Property and equipment, net	<u>2,264,865</u>	<u>2,244,006</u>
Other Assets		
Investments, net - marketable securities, long term	1,499,000	994,478
Right of use asset, net	1,267,242	592,170
Other assets	67,627	78,289
Total other assets	<u>2,833,869</u>	<u>1,664,937</u>
TOTAL ASSETS	<u>\$ 16,663,593</u>	<u>\$ 17,486,420</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short term debt	\$ -	\$ 49,149
Operating lease, short term	160,728	111,193
Accounts payable	540,794	385,489
Customer deposits	1,735,251	4,871,035
Accrued expenses	576,932	527,595
Total current liabilities	<u>3,013,705</u>	<u>5,944,461</u>
Deferred tax liability	84,934	69,846
Operating lease, long term	1,108,533	492,080
Total liabilities	<u>4,207,172</u>	<u>6,506,387</u>
Total shareholders' equity	<u>12,456,421</u>	<u>10,980,033</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 16,663,593</u>	<u>\$ 17,486,420</u>

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF INCOME

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023

(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2024	2023	2024	2023
Revenue	\$ 3,883,237	\$ 7,700,123	\$ 17,819,042	\$ 20,954,960
Cost of revenue	2,793,944	6,313,460	13,935,694	16,990,090
Gross profit	1,089,293	1,386,663	3,883,348	3,964,870
General and administrative expense	476,572	433,656	1,426,406	1,285,152
Research and development expense	130,014	121,554	489,879	372,407
Marketing and sales expense	123,596	121,244	404,486	358,058
Income from operations	359,111	710,209	1,562,577	1,949,253
Interest income, net	107,391	81,252	290,908	194,143
Income before provision for income taxes	466,502	791,461	1,853,485	2,143,396
Income tax expense	105,924	212,677	421,077	515,233
NET INCOME	\$ 360,578	\$ 578,784	\$ 1,432,408	\$ 1,628,163
Earnings per share - basic and diluted				
Income per common share				
Basic	\$ 0.08	\$ 0.13	\$ 0.32	\$ 0.36
Diluted	\$ 0.08	\$ 0.13	\$ 0.31	\$ 0.36
Weighted average shares outstanding				
Basic	4,564,259	4,530,207	4,546,269	4,528,524
Diluted	4,568,863	4,561,708	4,550,820	4,559,208

SCI ENGINEERED MATERIALS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023
(UNAUDITED)

	<u>2024</u>	<u>2023</u>
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 2,410,129	2,328,558
Investing activities	(378,928)	(402,573)
Financing activities	(49,149)	(75,338)
NET INCREASE IN CASH	<u>1,982,052</u>	<u>1,850,647</u>
CASH - Beginning of period	<u>5,673,994</u>	<u>3,947,966</u>
CASH - End of period	<u>\$ 7,656,046</u>	<u>\$ 5,798,613</u>