
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 June 30, 2025

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 ☒

4,578,979 shares of Common Stock, without par value, were outstanding at July 31, 2025.

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

	June 30, 2025	December 31, 2024
	(UNAUDITED)	
Current Assets		
Cash and cash equivalents	\$ 7,970,668	\$ 6,753,403
Investments - marketable securities, short term	—	509,478
Accounts receivable		
Trade, less allowance for doubtful accounts of \$15,000	602,895	704,808
Tax - Employee Retention Credit	—	40,539
Other	24,271	29,941
Inventories, net	1,077,722	1,432,914
Prepaid purchase orders	142,565	83,932
Prepaid expenses	65,969	154,902
Total current assets	<u>9,884,090</u>	<u>9,709,917</u>
Property and Equipment, at cost		
Machinery and equipment	9,033,694	8,755,422
Furniture and fixtures	178,307	178,307
Leasehold improvements	744,297	744,297
Construction in progress	132,334	226,002
	<u>10,088,632</u>	<u>9,904,028</u>
Less accumulated depreciation and amortization	(7,810,882)	(7,632,946)
Property and equipment, net	<u>2,277,750</u>	<u>2,271,082</u>
Other Assets		
Investments, net - marketable securities, long term	3,249,000	2,249,000
Right of use asset, net	1,152,790	1,236,572
Other assets	63,927	66,394
Total other assets	<u>4,465,717</u>	<u>3,551,966</u>
TOTAL ASSETS	<u><u>\$ 16,627,557</u></u>	<u><u>\$ 15,532,965</u></u>

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

SCI ENGINEERED MATERIALS, INC.

BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	June 30, 2025 (UNAUDITED)	December 31, 2024
Current Liabilities		
Operating lease obligations, current portion	\$ 193,566	\$ 174,863
Accounts payable	536,914	419,209
Customer deposits	858,124	337,873
Accrued compensation	209,158	401,830
Accrued expenses and other	141,260	130,430
Total current liabilities	1,939,022	1,464,205
Deferred tax liability	122,527	121,649
Operating lease obligations, net of current portion	959,224	1,061,709
Total liabilities	3,020,773	2,647,563
Shareholders' Equity		
Common stock, no par value, authorized 15,000,000 shares; 4,578,979 and 4,568,127 shares issued and outstanding, respectively	10,753,529	10,706,323
Additional paid-in capital	2,233,384	2,233,384
Retained earnings (accumulated deficit)	619,871	(54,305)
Total shareholders' equity	13,606,784	12,885,402
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 16,627,557	\$ 15,532,965

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

SCI ENGINEERED MATERIALS, INC.
STATEMENTS OF INCOME
THREE AND SIX MONTHS ENDED JUNE 30, 2025 AND 2024
(UNAUDITED)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>
Revenue	\$ 3,609,304	\$ 5,532,710	\$ 7,109,536	\$ 13,935,805
Cost of revenue	2,451,147	4,153,771	4,878,565	11,141,750
Gross profit	1,158,157	1,378,939	2,230,971	2,794,055
General and administrative expense	549,540	467,573	1,097,361	949,834
Research and development expense	107,374	174,630	209,641	359,865
Marketing and sales expense	145,436	151,538	265,623	280,890
Income from operations	355,807	585,198	658,346	1,203,466
Interest income, net	115,680	96,461	213,810	183,517
Income before provision for income taxes	471,487	681,659	872,156	1,386,983
Income tax expense	107,028	155,153	197,980	315,153
NET INCOME	\$ 364,459	\$ 526,506	\$ 674,176	\$ 1,071,830
Earnings per share - basic and diluted (Note 7)				
Income per common share				
Basic	\$ 0.08	\$ 0.12	\$ 0.15	\$ 0.24
Diluted	\$ 0.08	\$ 0.12	\$ 0.15	\$ 0.23
Weighted average shares outstanding				
Basic	4,574,686	4,539,549	4,571,425	4,537,175
Diluted	4,578,926	4,569,288	4,575,729	4,566,831

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

SCI ENGINEERED MATERIALS, INC.
STATEMENTS OF SHAREHOLDERS' EQUITY
THREE AND SIX MONTHS ENDED JUNE 30, 2025 AND 2024
(UNAUDITED)

	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total
Balance 12/31/2024	\$ 10,706,323	\$ 2,233,384	\$ (54,305)	\$ 12,885,402
Net income	—	—	309,717	309,717
Balance 3/31/2025	\$ 10,706,323	\$ 2,233,384	\$ 255,412	\$ 13,195,119
Common stock issued (Note 5)	47,206	—	—	47,206
Net income	—	—	364,459	364,459
Balance 6/30/2025	<u>\$ 10,753,529</u>	<u>\$ 2,233,384</u>	<u>\$ 619,871</u>	<u>\$ 13,606,784</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	—	—	545,324	545,324
Balance 3/31/2024	\$ 10,706,323	\$ 2,233,384	\$ (1,370,370)	\$ 11,569,337
Net income	—	—	526,506	526,506
Balance 6/30/2024	<u>\$ 10,706,323</u>	<u>\$ 2,233,384</u>	<u>\$ (843,864)</u>	<u>\$ 12,095,843</u>

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

SCI ENGINEERED MATERIALS, INC.
STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2025 AND 2024
(UNAUDITED)

	Six Months Ended June 30,	
	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 674,176	\$ 1,071,830
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and accretion	211,740	253,262
Amortization of patents	2,466	2,466
Stock based compensation	47,206	43,980
Loss on disposal of equipment	497	—
Deferred taxes	878	16,339
Inventory reserve	680	1,020
Changes in operating assets and liabilities:		
Accounts receivable	148,122	(331,179)
Inventories	354,512	2,197,209
Prepaid purchase orders	(58,633)	1,118,572
Prepaid expenses	88,933	81,845
Other assets	—	(14,000)
Accounts payable	117,705	443,374
Operating lease assets and liabilities, net	—	(6,056)
Customer deposits	520,251	(3,921,817)
Accrued liabilities	(185,292)	(109,342)
Net cash provided by operating activities	<u>1,923,241</u>	<u>847,503</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	(2,000,000)	(1,000,000)
Proceeds from maturities of marketable securities	1,509,478	1,000,000
Purchases of property and equipment	(215,454)	(287,926)
Net cash used in investing activities	<u>(705,976)</u>	<u>(287,926)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on finance lease obligations	<u>—</u>	<u>(41,095)</u>
NET INCREASE IN CASH	1,217,265	518,482
CASH - Beginning of year	<u>6,753,403</u>	<u>5,673,994</u>
CASH - End of period	<u>\$ 7,970,668</u>	<u>\$ 6,192,476</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ —	\$ 678
Income taxes	194,228	220,869
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Increase in asset retirement obligation	\$ 3,450	\$ 3,450

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, 2024. 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 it is fully completed.

Revenue from the photonics industry exceeded 99% of total revenue during the six months ended June 30, 2025 and 2024. The top two customers represented 83% and 89% of total revenue for the six months ended June 30, 2025 and 2024, respectively. The Company sells multiple products to its top two customers. International shipments were 1% and 2% of total revenue for the six months ended June 30, 2025 and 2024.

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 six months ended June 30, 2025 and 2024:

	Balance at beginning of period	Billings	Payments received	Balance at end of period
Six months ended June 30, 2025				
Accounts receivable	\$ 704,808	\$ 7,109,536	\$ (7,211,449)	\$ 602,895
Six months ended June 30, 2024				
Accounts receivable	\$ 854,501	\$ 13,935,805	\$ (13,612,237)	\$ 1,178,069

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 six months ended June 30, 2025 and 2024:

	Balance at beginning of period	Billings	Recognized revenue	Balance at end of period
Six months ended June 30, 2025				
Contract Liabilities: Customer deposits	\$ 337,873	\$ 4,757,749	\$ (4,237,498)	\$ 858,124
Six months ended June 30, 2024				
Contract Liabilities: Customer deposits	\$ 4,871,035	\$ 6,410,202	\$ (10,332,019)	\$ 949,218

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 sheet December 31, 2024. The Company received the full ERC balance, plus interest of \$6,650 in April of 2025.

Note 3. Recent Accounting Pronouncements

The Company has reviewed the accounting pronouncements issued by the Financial Accounting Standards Board during the three months ended June 30, 2025. Applicable pronouncements are adopted by the Company in accordance with the accounting guidance and definition. Management does not believe the adoption of any of these accounting pronouncements has had or will have a material impact on the Company’s financial statements. Management does not believe there are other significant accounting pronouncements which have had or will have a material impact on the Company’s financial statements.

Note 4. Investments

Money market funds, where quoted prices are available in an active market, are classified within level 1 of the valuation hierarchy. The Company invested in a money market fund which had a fair value of \$5,390,690 and \$3,192,705 at June 30, 2025 and December 31, 2024, 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 June 30, 2025 and December 31, 2024, the Company held investments in corporate bonds rated BBB+ 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 June 30, 2025, the length of time until maturity of the bonds currently owned ranged from 17 to 41 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
June 30, 2025				
Corporate bonds	\$ 3,250,000	\$ (1,990)	\$ —	\$ 3,248,010
U.S. government treasuries	—	—	—	—
Total investments	\$ 3,250,000	\$ (1,990)	\$ —	\$ 3,248,010
Allowance for credit losses	(1,000)			
Total investments, net	\$ 3,249,000			
December 31, 2024				
Corporate bonds	\$ 2,250,000	\$ (6,097)	\$ —	\$ 2,243,903
U.S. government treasuries	509,478	—	7,662	517,140
Total investments	\$ 2,759,478	\$ (6,097)	\$ 7,662	\$ 2,761,043
Allowance for credit losses	(1,000)			
Total investments, net	\$ 2,758,478			

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 June 30, 2025. Our allowance for credit losses was \$1,000 at June 30, 2025 and December 31, 2024, 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. Employees received compensation of 10,852 and 0 aggregate shares of common stock of the Company during the three months ended June 30, 2025, and 2024, respectively. These shares had an aggregate value of \$47,206 and \$0 and were recorded as non-cash stock compensation expense in the financial statements for the three months ended June 30, 2025 and 2024, respectively.

Employees received compensation of 10,852 and 8,709 aggregate shares of common stock of the Company during the six months ended June 30, 2025 and 2024, respectively. These shares had an aggregate value of \$47,206 and \$43,980 and were recorded as non-cash stock compensation expense in the financial statements for the six months ended June 30, 2025 and 2024, respectively.

SCI ENGINEERED MATERIALS, INC
NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

Note 5. Common Stock and Stock Options (continued)

The cumulative status of options granted and outstanding at June 30, 2025 and December 31, 2024, 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, 2024	41,304	\$ 1.05
Exercised	(35,359)	\$ 1.02
Outstanding at December 31, 2024	5,945	\$ 1.25
Outstanding at June 30, 2025	5,945	\$ 1.25
Options exercisable at December 31, 2024	5,945	\$ 1.25
Options exercisable at June 30, 2025	5,945	\$ 1.25

Exercise price for options was \$1.25 at June 30, 2025, with a contractual life of 2.9 years.

Note 6. Inventories

Inventories consisted of the following:

	June 30, 2025	December 31, 2024
Raw materials	\$ 211,873	\$ 291,890
Work-in-process	682,246	895,373
Finished goods	191,299	252,667
	1,085,418	1,439,930
Inventory reserve	(7,696)	(7,016)
	<u>\$ 1,077,722</u>	<u>\$ 1,432,914</u>

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. Diluted earnings per share exclude all diluted potential shares if their effect is anti-dilutive. Any 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 June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Net income	<u>\$ 364,459</u>	<u>\$ 526,506</u>	<u>\$ 674,176</u>	<u>\$ 1,071,830</u>
Weighted average common shares outstanding - basic	4,574,686	4,539,549	4,571,425	4,537,175
Effect of dilution - stock options	4,240	29,739	4,304	29,656
Weighted average shares outstanding - diluted	<u>4,578,926</u>	<u>4,569,288</u>	<u>4,575,729</u>	<u>4,566,831</u>

SCI ENGINEERED MATERIALS, INC
NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

Note 8. Line of Credit

The Company renewed its line of credit with Fifth Third Bank for \$1 million during the third quarter of 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 June 30, 2025.

Note 9. Income Taxes

The provision for income taxes for the three and six months ended June 30, 2025 and 2024 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% for the three and six months ended June 30, 2025, and 22.8% and 22.7% for the three and six months ended June 30, 2024, 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 June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Federal	\$ 99,012	\$ 143,574	\$ 183,152	\$ 291,574
State and local	8,016	11,579	14,828	23,579
	<u>\$ 107,028</u>	<u>\$ 155,153</u>	<u>\$ 197,980</u>	<u>\$ 315,153</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 June 30, 2025. The deferred tax liability was \$122,527 at June 30, 2025 and \$121,649 at December 31, 2024.

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 included monthly payments ranging from \$9,200 to \$9,700 with a maturity date of November 30, 2024. During the third quarter of 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 \$74,200 and \$29,200 for the three months ended June 30, 2025 and 2024, respectively and \$148,400 and \$58,400 during the six months ended June 30, 2025 and 2024, respectively. Additionally, the variable lease costs were approximately \$18,600 and \$23,000 for the three months ended June 30, 2025 and 2024, respectively and \$59,200 and \$38,500 for the six months ended June 30, 2025 and 2024, respectively.

The following is a maturity analysis, by year, of the annual undiscounted cash outflows of the operating lease liabilities as of June 30, 2025:

2025		\$	149,434
2026			309,793
2027			322,184
2028			335,072
2029			318,374
Total minimum lease payments			1,434,857
Less debt discount			282,067
Total operating lease obligations		\$	1,152,790

			2025			2024
Operating cash outflows from operating leases - year-to-date	\$		83,782		\$	56,139
Weighted average remaining lease term – operating leases		4.4		years		5.4 years
Weighted average discount rate – operating leases		8.5		%		5.5 %

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, 2024.

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, 2024, 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 June 30, 2025, we had total revenue of \$3,609,304 compared to \$5,532,710 for the three months ended June 30, 2024. The decrease in revenue for the three months ended June 30, 2025 versus June 30, 2024 was primarily due to product mix and lower volume. We had total revenue of \$7,109,536 for the six months ended June 30, 2025, compared to \$13,935,805 for the six months ended June 30, 2024. The combination of product mix, lower raw material costs and volume contributed to the decrease in total revenue for the six months ended June 30, 2025.

Gross profit was \$1,158,157 for the three months ended June 30, 2025, compared to \$1,378,939 for the same three months in 2024. Gross profit as a percentage of revenue (gross margin) was 32.1% and 24.9% for the three months ended June 30, 2025 and 2024, respectively. Lower volume resulted in the decrease in gross profit while volume and product mix were the primary reason for the increased gross margin for the three months ended June 30, 2025. Gross profit was \$2,230,971 for the six months ended June 30, 2025 compared to \$2,794,055 for the same six months in 2024, and gross margin was 31.4% and 20.0% for the six months ended June 30, 2025 and 2024, respectively. While lower raw material costs and volume were key factors in the decrease in gross profit, gross margin benefited from product mix and lower raw material costs. We constantly monitor the costs of our raw materials as they continue to fluctuate.

Operating expenses were \$802,350 and \$793,741 for the three months ended June 30, 2025 and June 30, 2024 respectively and \$1,572,625 and \$1,590,589 for the six months ended June 30, 2025 and 2024, respectively.

Income from operations was \$355,807 and \$585,198 for the three months ended June 30, 2025, and 2024, respectively, and \$658,346 and \$1,203,466 for the six months ended June 30, 2025 and 2024, respectively.

The Company continues to invest in developing innovative applications and its Technical Committee establishes a defined path to commercialization. For example, electrically conductive Indium Tin Oxide with a density of 99% and rotatable targets up to three meters in length that offer multiple benefits were recently introduced in several of our markets. Our Boron Carbide Armor and Enriched Boron Carbide products are particularly valued in the defense and aerospace markets since they are manufactured

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

domestically. New initiatives are also being pursued that utilize our vacuum hot presses, cold isostatic press, and kilns for increased production and development projects, including specialty diffusion bonding processes.

Several issues are currently impacting national and global market conditions. First, increased political uncertainties, including international tariffs, are particularly affecting multinational customers. Second, inflation continues to impact labor, 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. Third, supply chain disruptions are adversely impacting customers' businesses in certain markets. 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 and may be influenced by the changes in international tariffs and reactions to such changes. 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 six months ended June 30, 2025 (unaudited) compared to three and six months ended June 30, 2024 (unaudited):

Revenue

For the three months ended June 30, 2025, we had total revenue of \$3,609,304 compared to \$5,532,710 for the three months ended June 30, 2024. The decrease in revenue for the three months ended June 30, 2025 versus June 30, 2024 was primarily due to product mix and lower volume. We had total revenue of \$7,109,536 for the six months ended June 30, 2025, compared to \$13,935,805 for the six months ended June 30, 2024. The combination of product mix, lower raw material costs and volume contributed to the decrease in total revenue for the six months ended June 30, 2025.

Gross profit

Gross profit was \$1,158,157 for the three months ended June 30, 2025, compared to \$1,378,939 for the same three months in 2024. Gross profit as a percentage of revenue (gross margin) was 32.1% and 24.9% for the three months ended June 30, 2025 and 2024, respectively. Lower volume resulted in the decrease in gross profit while volume and product mix were the primary reasons for the increased gross margin for the three months ended June 30, 2025. Gross profit was \$2,230,971 for the six months ended June 30, 2025 compared to \$2,794,055 for the same six months in 2024, and gross margin was 31.4% and 20.0% for the six months ended June 30, 2025 and 2024, respectively. While lower raw material costs and volume were key factors in the decrease in gross profit, gross margin benefited from product mix and lower raw material costs. We constantly monitor the costs of our raw materials as they continue to fluctuate.

General and administrative expense

General and administrative expense for the three months ended June 30, 2025, and 2024, was \$549,540 and \$467,573, respectively, an increase of 17.5%. The increase is attributed to increased staff and compensation of \$66,400, professional fees and Information Technology consulting services of \$8,583, and higher rent expense of \$6,016 versus the second quarter of 2024. General and administrative expense for the six months ended June 30, 2025, and 2024, was \$1,097,361 and \$949,834, respectively, an increase of 15.5%. The increase is attributed to increased professional fees and Information Technology consulting services of \$62,540, staff and compensation of \$57,290, and higher rent expense of \$16,374 versus the first six months of 2024.

Research and development expense

Research and development expense for the three months ended June 30, 2025, was \$107,374 compared to \$174,630 for the same period in 2024, a decrease of 38.5%. This decrease was due to fewer research materials and supplies of \$69,567. Research and development expense for the six months ended June 30, 2025 was \$209,641 compared to \$359,865 for the same period in

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

2024, a decrease of 41.7%. This decrease was due to fewer research materials and supplies of \$132,013. 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 products which involve ongoing research and development expense.

Marketing and sales expense

Marketing and sales expense was \$145,436 and \$151,538 for the three months ended June 30, 2025, and 2024, respectively, a decrease of 4.0%. Travel expenses were \$3,657 lower during the three months ended June 30, 2025, compared to the same period in 2024. Marketing and sales expense was \$265,623 and \$280,890 for the six months ended June 30, 2025 and 2024, respectively, a decrease of 5.4%. Travel expenses were \$8,807 lower, while compensation and benefits expense decreased \$3,488 during the six months ended June 30, 2025, compared to the same period in 2024.

Stock compensation expense

Stock-based compensation costs were \$47,206 and \$0 for the three months ended June 30, 2025 and 2024, respectively. Stock-based compensation costs were \$47,206 and \$43,980 for the six months ended June 30, 2025 and 2024, respectively. Compensation expense for all stock-based awards is based on the grant date fair value and recognized over the required service (vesting) period.

Interest

Net interest income was \$115,680, and \$96,461 for the three months ended June 30, 2025, and 2024, respectively, and \$213,810 and \$183,517 for the six months ended June 30, 2025 and 2024, respectively. The increase was primarily due to higher cash and cash equivalents plus approximately \$3.25 million invested in marketable securities.

Income taxes

Income tax expense was \$107,028, and \$155,153 for the three months ended June 30, 2025, and 2024, respectively, and \$197,980 and \$315,153 for the six months ended June 30, 2025 and 2024, respectively. The effective tax rate was 22.7% for the three and six months ended June 30, 2025, and 22.8% and 22.7% for the three and six months ended June 30, 2024, respectively. The deferred tax liability was \$122,527 at June 30, 2025 and \$121,649 at December 31, 2024.

Net income

Net income for the three months ended June 30, 2025, and 2024, was \$364,459, and \$526,506, respectively, and \$674,176 and \$1,071,830 for the six months ended June 30, 2025 and 2024, respectively. Lower gross profit, slightly offset by higher interest income and lower income tax expense, contributed to the decrease.

Liquidity and Capital Resources

Cash and cash equivalents

As of June 30, 2025, cash and cash equivalents were \$7,970,668 compared to \$6,753,403 at December 31, 2024. Additionally, we had investments of \$3,249,000 and \$2,758,478 in marketable securities at June 30, 2025 and December 31, 2024.

Working capital

At June 30, 2025, working capital was \$7,945,068, compared to \$8,245,712 at December 31, 2024, a decrease of \$300,644, or 3.6%. Cash and cash equivalents increased \$1,217,265, accounts receivable decreased \$148,122, and inventories decreased \$355,192. Also, a short-term investment of \$509,478 matured and was reinvested into a long-term corporate bond. In addition,

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

accounts payable increased \$117,705, customer deposits increased \$520,251 and accrued compensation and other expenses decreased \$185,293.

Cash from operations

Net cash provided by operating activities was \$1,923,241 and \$847,503 during the six months ended June 30, 2025, and June 30, 2024, respectively. In addition to the net income generated in each period, these amounts included depreciation and amortization of \$211,740 and \$253,262, and noncash stock-based compensation costs of \$47,206 and \$43,980 for the six months ended June 30, 2025, and 2024, respectively. The increase in customer deposits and prepaid purchase orders compared to December 31, 2024, were related to orders received late in the second quarter of 2025. The decrease in inventories compared to December 31, 2024, were related to lower raw material costs during the first six months of 2025. Customers continue to adapt to external economic and market issues, while monitoring 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 \$215,454 and \$287,926 was used in investing activities for the acquisition of production equipment during the six months ended June 30, 2025 and 2024, respectively. Continued reinvestments in marketable securities has been based on increases in free cash flow and opportunities to earn higher returns.

Cash from financing activities

Cash of \$0 and \$41,095 was used in financing activities for principal payments to third parties for finance lease obligations during the three months ended June 30, 2025 and 2024, respectively.

Debt outstanding

Total debt outstanding was \$0 at June 30, 2025 and December 31, 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, 2024, 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 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

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

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, changes 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 our 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 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 June 30, 2025, 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 \(Incorporated by reference to the Company's Definitive Proxy Statement for the 2011 Annual Meeting of Shareholders held on September 10, 2011, filed April 28, 2011\).](#)
- 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 August 1, 2025 entitled "SCI Engineered Materials, Inc., Reports 2025 Second Quarter and Year-to-Date Results."](#)
- 101 * The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2025, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Balance Sheets at June 30, 2025 and December 31, 2024, (ii) Statements of Income for the three and six months ended June 30, 2025 and 2024, (iii) Statement of Changes in Equity for the three and six months ended June 30, 2025 and 2024, (iv) Statements of Cash Flows for the six months ended June 30, 2025 and 2024, 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: August 1, 2025

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: August 1, 2025

/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: August 1, 2025

/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 June 30, 2025 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)
August 1, 2025

**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 June 30, 2025 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)

August 1, 2025



Contact: Robert Lentz
(614) 439-6006

**SCI Engineered Materials, Inc. Reports
2025 Second Quarter and Year-to-Date Results**

COLUMBUS, Ohio (August 1, 2025) SCI Engineered Materials, Inc. ("SCI" or "Company") (OTCQB: SCIA), today reported financial results for the three months and six months ended June 30, 2025.

Jeremy Young, President and Chief Executive Officer, said "We continued to address weak market conditions during the second quarter and adapted to those challenges by focusing on areas of our business we can control. As a result, gross margin improved and operating expenses were similar for the first six months and second quarter of 2025 compared to the same periods last year."

Mr. Young added, "Two new products were launched in the second quarter of 2025, including an indium tin oxide product that offers customers total cost of ownership benefits and addresses increased interest in domestic manufacturing. The second one is a rotatable target which can be produced up to three meters in length. SCI has a patent for the bonding process of this product and this configuration enables customers to achieve higher utilization of the target's surface. We also recently ordered additional equipment to increase our rotatable manufacturing footprint."

Revenue

Revenue for the six months ended June 30, 2025, was \$7,109,536 versus \$13,935,805 for the same period last year. Factors which contributed to the year-over-year decrease included product mix, lower raw material costs and lower volume. For the second quarter of 2025, revenue decreased to \$3,609,304 from \$5,532,710 a year ago due to product mix and lower volume.

Order backlog was \$3.4 million at June 30, 2025, versus \$2.9 million on the same date last year and \$2.5 million at March 31, 2025.

Gross profit

Gross profit of \$2,230,971 for the first half of 2025 was 20% below \$2,794,055 a year ago due to lower volume and lower raw material costs. For the second quarter of 2025, gross profit decreased 16% to \$1,158,157 from \$1,378,939 for the same period last year due to lower volume.

Operating expenses

Operating expenses totaled \$1,572,625 for six months ended June 30, 2025, compared to \$1,590,589 a year ago. Higher professional fees, consulting services, staff, and compensation expenses in the first half of this year were more than offset by lower R&D expense for research materials and supplies. For the second quarter of 2025, operating expenses were \$802,350 versus \$793,741 the prior year. Increased staff and compensation expenses for the 2025 period were primarily offset by lower R&D expense.

Net interest income

Net interest income increased approximately 17% to \$213,810 for the first half of 2025 from \$183,517 a year ago. For the second quarter of 2025, net interest income increased 20% to \$115,680 versus \$96,461 for the same period in 2024. Both periods in 2025 benefited from higher cash and cash equivalents plus investment in marketable securities.

Income taxes

Income tax expense decreased 37% to \$197,980 for the six months ended June 30, 2025, from \$315,153 a year ago. For the second quarter of 2025, income tax expense decreased 31% to \$107,028 from \$155,153 for the same period last year. The Company's effective tax rate was 22.7% for the first six months of 2025 and 2024. For the second quarters of 2025 and 2024, the effective tax rate was 22.7% and 22.8%, respectively.

Net income

Net income was \$674,176 for the first six months of 2025 compared to \$1,071,830 a year ago. For the second quarter of 2025, net income was \$364,459 versus \$526,506 last year. Lower gross profit for the six month and three-month periods ended June 30, 2025, was partially offset by lower income tax expense and higher net interest income. Net income per diluted share was \$0.15 for the first six months of 2025 versus \$0.23 in 2024, and \$0.08 compared to \$0.12 for the second quarter of 2025 and 2024, respectively.

Cash and cash equivalents

Cash and cash equivalents were \$7,970,668 at June 30, 2025, an increase of 18% compared to \$6,753,403 at December 31, 2024. The Company's investment in marketable securities was \$3,249,000 at June 30, 2025, versus \$2,758,478 at 2024 year-end, an 18% increase.

Debt outstanding

The Company had no debt outstanding at June 30, 2025, or December 31, 2024, respectively.

About SCI Engineered Materials, Inc.

SCI Engineered Materials is a global supplier and manufacturer of advanced materials for PVD thin film applications and 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, 2024. One or more of these factors has 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

	June 30, 2025	December 31, 2024
	(UNAUDITED)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 7,970,668	\$ 6,753,403
Investments - marketable securities, short term	-	509,478
Accounts receivable, less allowance for doubtful accounts	627,166	775,288
Inventories	1,077,722	1,432,914
Prepaid purchase orders and expenses	208,534	238,834
Total current assets	<u>9,884,090</u>	<u>9,709,917</u>
Property and Equipment, at cost	10,088,632	9,904,028
Less accumulated depreciation and amortization	<u>(7,810,882)</u>	<u>(7,632,946)</u>
Property and equipment, net	<u>2,277,750</u>	<u>2,271,082</u>
Other Assets		
Investments, net - marketable securities, long term	3,249,000	2,249,000
Right of use asset, net	1,152,790	1,236,572
Other assets	63,927	66,394
Total other assets	<u>4,465,717</u>	<u>3,551,966</u>
TOTAL ASSETS	\$ <u>16,627,557</u>	\$ <u>15,532,965</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Operating lease, short term	\$ 193,566	\$ 174,863
Accounts payable	536,914	419,209
Customer deposits	858,124	337,873
Accrued expenses	350,418	532,260
Total current liabilities	<u>1,939,022</u>	<u>1,464,205</u>
Deferred tax liability	122,527	121,649
Operating lease, long term	<u>959,224</u>	<u>1,061,709</u>
Total liabilities	<u>3,020,773</u>	<u>2,647,563</u>
Total shareholders' equity	13,606,784	12,885,402
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ <u>16,627,557</u>	\$ <u>15,532,965</u>

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2025 AND 2024

(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2025	2024	2025	2024
Revenue	\$ 3,609,304	\$ 5,532,710	\$ 7,109,536	\$ 13,935,805
Cost of revenue	2,451,147	4,153,771	4,878,565	11,141,750
Gross profit	1,158,157	1,378,939	2,230,971	2,794,055
General and administrative expense	549,540	467,573	1,097,361	949,834
Research and development expense	107,374	174,630	209,641	359,865
Marketing and sales expense	145,436	151,538	265,623	280,890
Income from operations	355,807	585,198	658,346	1,203,466
Interest income, net	115,680	96,461	213,810	183,517
Income before provision for income taxes	471,487	681,659	872,156	1,386,983
Income tax expense	107,028	155,153	197,980	315,153
NET INCOME	\$ 364,459	\$ 526,506	\$ 674,176	\$ 1,071,830
Earnings per share - basic and diluted				
Income per common share				
Basic	\$ 0.08	\$ 0.12	\$ 0.15	\$ 0.24
Diluted	\$ 0.08	\$ 0.12	\$ 0.15	\$ 0.23
Weighted average shares outstanding				
Basic	4,574,686	4,539,549	4,571,425	4,537,175
Diluted	4,578,926	4,569,288	4,575,729	4,566,831

SCI ENGINEERED MATERIALS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2025 AND 2024
(UNAUDITED)

	<u>2025</u>	<u>2024</u>
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 1,923,241	847,503
Investing activities	(705,976)	(287,926)
Financing activities	—	(41,095)
NET INCREASE IN CASH	<u>1,217,265</u>	<u>518,482</u>
CASH - Beginning of period	<u>6,753,403</u>	<u>5,673,994</u>
CASH - End of period	<u><u>\$ 7,970,668</u></u>	<u><u>\$ 6,192,476</u></u>