

## SCI Engineered Materials, Inc. Reports Second Quarter and Six Months 2016 Results

COLUMBUS, OH--(Marketwired - Jul 28, 2016) - Engineered Materials, Inc. ("SCI") (OTCQX: SCIA), a global supplier and manufacturer of advanced materials for physical vapor deposition thin film applications that works closely with end users and OEMs to develop innovative, customized solutions, today reported its financial results for the three months and six months ended June 30, 2016.

Dan Rooney, President and Chief Executive Officer, said, "We look forward to improved performance in the second half of this year following a slow start for 2016. We anticipate our results for the third quarter of 2016 will be better sequentially and also compared to a year ago."

Mr. Rooney added, "The growth in our inventory since year-end 2015 is being driven by an increase in orders. These products will begin to ship during the second half of 2016. Our order backlog at the end of the second quarter of 2016 was 26% above the year-end 2015 amount."

Mr. Rooney continued, "Year-to-date orders for thin film solar products exceed the amount for the entire year 2015. We are encouraged by the resumption of global growth in the thin film solar market; especially increased production of copper indium gallium selenide-based products; at several sites. These represent substantial growth opportunities for SCI as we continue to implement our thin film solar strategy. In addition, we are pursuing several opportunities in our traditional business, and some new applications and we look forward to them being approved for our customers' production."

### *Revenue*

Revenue was \$1,206,484 for the three months ended June 30, 2016, compared to \$2,228,686 for the same period last year, a decrease of 46%. For the first six months of 2016, revenue was \$2,581,296 or 48% below a year ago. The revenue decrease for both periods in 2016 was attributable to three factors: lower volume, a substantial decline in the cost of a commodity material during the past year which resulted in lower selling prices plus a temporary reduction in a major customer's orders that continued into the second quarter of 2016. Sales of thin film solar products are anticipated to increase during the second half of this year.

Order backlog at June 30, 2016, was 26% higher compared to year-end 2015 and June 30, 2015.

### *Gross profit*

Gross profit was \$320,346 for the second quarter of 2016 versus \$636,687 for the same period in 2015. For the first half of 2016, gross profit decreased to \$615,788 compared to \$1,306,092 last year. The decrease in gross profit for both periods in 2016 was due to lower revenue and product mix.

Gross profit margin for the second quarter and first six months of 2016 was 26.6% and 23.9%, respectively, compared to 28.6% and 26.4% the prior year.

### *Operating expense*

Operating expense (including general and administrative expense, marketing and sales expense and research and development expense) decreased 9% and 8%, respectively, for the second quarter and first half of 2016 versus a year ago. General and administrative expense decreased for both periods in 2016, while higher compensation expense in the first half of 2016 partially offset the decrease in other operating expenses compared to the prior year.

We continue to invest in development of new products in all of our markets including transparent conductive oxide systems for thin film solar and transparent electronic products.

### *Loss/Income Applicable to Common Shares*

The loss applicable to common shares was \$183,339 or \$0.05 per share for the second quarter of 2016 compared to income of \$81,050 or \$0.02 per share for the same period last year. For the first half of 2016, the loss applicable to common shares was \$420,266 or \$0.10 versus income of \$177,528 or \$0.04 a year ago. The decrease in both periods compared to a year ago was due to lower revenue and product mix.

### *EBITDA*

EBITDA (earnings before interest, income taxes, depreciation and amortization) was negative \$53,460 for the three months ended June 30, 2016, compared to EBITDA of \$216,386 for the second quarter of 2015. EBITDA was negative \$159,950 for the first six months 2016 versus EBITDA of \$448,067 for the same period last year.

Adjusted EBITDA, which excludes non-cash stock based compensation, was negative \$1,929 for the second quarter of 2016 compared to adjusted EBITDA of \$268,919 for the same period last year. For the first six months of 2016, adjusted EBITDA was negative \$54,487 versus adjusted EBITDA of \$553,190 for the first half of 2015.

### *Cash and Total Debt Outstanding*

Cash provided by operating activities was \$134,788 for the first six months of 2016 compared to \$670,806 for the same period in 2015. Cash on hand was \$887,583 at June 30, 2016, compared to \$997,170 at year-end 2015.

Total debt outstanding was approximately \$890,000 at June 30, 2016, a decrease of 4% compared to December 31, 2015. During the second quarter of 2016 the Company deployed maintenance capital through a new capital lease obligation of approximately \$145,000. During the

third quarter of 2016 the Company expects to close on an additional capital lease of approximately \$104,000 upon receipt and installation of manufacturing equipment.

*About SCI Engineered Materials, Inc.*

SCI Engineered Materials is a global supplier and manufacturer of advanced materials for PVD thin film applications that works closely with end users and OEMs to develop innovative, customized solutions. Additional information is available at [www.sciengineeredmaterials.com](http://www.sciengineeredmaterials.com).

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, and plans of the Company and its management, and specifically include statements concerning looking forward to improved performance in the second half of this year and anticipation that the Company's results for the third quarter of 2016 will be better sequentially and also compared to a year ago. 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, 2015. One or more of these factors have affected, and could in the future affect, the Company's projections. Therefore, there can be no assurances that the forward-looking statements included in this press release will prove to be accurate. In light of 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**

**ASSETS**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
	<b>(UNAUDITED)</b>	
Current Assets		
Cash	\$ 887,583	\$ 997,170
Accounts receivable, less allowance for doubtful accounts	287,353	302,512
Inventories	1,001,165	573,114
Prepaid expenses	62,026	61,301
Total current assets	<u>2,238,127</u>	<u>1,934,097</u>
Property and Equipment, at cost	8,189,613	7,990,723
Less accumulated depreciation	<u>(5,858,601)</u>	<u>(5,642,619)</u>
	<u>2,331,012</u>	<u>2,348,104</u>
Other Assets	<u>54,150</u>	<u>51,422</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,623,289</u>	<u>\$ 4,333,623</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current Liabilities		
Short term debt	\$ 297,196	\$ 321,288
Accounts payable	172,998	191,475
Customer deposits	851,575	155,800
Accrued expenses	206,431	255,017
Total current liabilities	<u>1,528,200</u>	<u>923,580</u>
Long term debt	<u>592,676</u>	<u>608,744</u>
Total liabilities	<u>2,120,876</u>	<u>1,532,324</u>
Commitments and contingencies		
Total Shareholders' Equity	<u>2,502,413</u>	<u>2,801,299</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 4,623,289</u>	<u>\$ 4,333,623</u>

**SCI ENGINEERED MATERIALS, INC.**

**STATEMENTS OF OPERATIONS**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 AND 2015**

	<u>THREE MONTHS ENDED JUNE 30,</u>		<u>SIX MONTHS ENDED JUNE 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenue	\$ 1,206,484	\$ 2,228,686	\$ 2,581,296	\$ 4,956,493
Cost of revenue	<u>886,138</u>	<u>1,591,999</u>	<u>1,965,508</u>	<u>3,650,401</u>
Gross profit	320,346	636,687	615,788	1,306,092
SG & A expense	412,031	442,711	846,601	896,008
Research & Development expense	<u>74,417</u>	<u>91,221</u>	<u>154,493</u>	<u>188,864</u>
(Loss) income from operations	(166,102)	102,755	(385,306)	221,220
Interest	<u>11,156</u>	<u>14,630</u>	<u>22,841</u>	<u>30,579</u>
(Loss) income before provision for income taxes	(177,258)	88,125	(408,147)	190,641
Income tax expense	<u>43</u>	<u>1,037</u>	<u>43</u>	<u>1,037</u>
Net (loss) income	(177,301)	87,088	(408,190)	189,604
Dividends on preferred stock	<u>6,038</u>	<u>6,038</u>	<u>12,076</u>	<u>12,076</u>
<b>(LOSS) INCOME APPLICABLE TO COMMON SHARES</b>	<u>\$ (183,339)</u>	<u>\$ 81,050</u>	<u>\$ (420,266)</u>	<u>\$ 177,528</u>
Earnings per share - basic and diluted				
(Loss) income per common share				
Basic	\$ (0.05)	\$ 0.02	\$ (0.10)	\$ 0.04
Diluted	<u>\$ (0.05)</u>	<u>\$ 0.02</u>	<u>\$ (0.10)</u>	<u>\$ 0.04</u>
Weighted average shares outstanding				
Basic	<u>4,042,722</u>	<u>3,978,728</u>	<u>4,033,488</u>	<u>3,959,601</u>
Diluted	<u>4,042,722</u>	<u>4,030,435</u>	<u>4,033,488</u>	<u>3,987,178</u>

**SCI ENGINEERED MATERIALS, INC.**

**CONDENSED STATEMENTS OF CASH FLOWS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>CASH PROVIDED BY (USED IN):</b>		
Operating activities	\$ 134,788	\$ 670,806
Investing activities	(58,618)	(28,788)
Financing activities	<u>(185,757)</u>	<u>(243,853)</u>
<b>NET (DECREASE) INCREASE IN CASH</b>	(109,587)	398,165
<b>CASH - Beginning of period</b>	<u>997,170</u>	<u>1,011,956</u>
<b>CASH - End of period</b>	<u>\$ 887,583</u>	<u>\$ 1,410,121</u>

**RECONCILIATION OF GAAP TO NON-GAAP MEASURES**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 AND 2015**

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Net (loss) income	\$ (177,301)	\$ 87,088	\$ (408,190)	\$ 189,604

Interest	11,156	14,630	22,841	30,579
Income taxes	43	1,037	43	1,037
Depreciation and amortization	<u>112,642</u>	<u>113,631</u>	<u>225,716</u>	<u>226,847</u>
<b>EBITDA</b>	<u>(53,460)</u>	<u>216,386</u>	<u>(159,590)</u>	<u>448,067</u>
Stock based compensation	51,531	52,532	105,103	105,123
<b>Adjusted EBITDA</b>	<u>\$ (1,929)</u>	<u>\$ 268,919</u>	<u>\$ (54,487)</u>	<u>\$ 553,190</u>

---

## CONTACT INFORMATION

- Contact:  
Robert Lentz  
(614) 876-2000