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SCI Engineered Materials, Inc. Reports Third Quarter 2015 Results

COLUMBUS, Ohio (November 2, 2015) SCI Engineered Materials, Inc. ("SCI") (SCIA: OTCQX), 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 nine months ended September 30, 2015.

Dan Rooney, President and Chief Executive Officer, said, "Third quarter sales to thin film solar customers were higher than a year ago and are up significantly year-to-date. We look forward to increased orders in the fourth quarter of this year. The future of solar remains strong globally. Thin film solar continues to achieve performance improvements compared to competing technologies and additional manufacturing capacity is being deployed. The company is well-positioned to take advantage of this expected growth. SCI achieved year-over-year sales growth in Asia, where significant growth is expected to continue, and we are implementing plans to gain further access in multiple markets."

Mr. Rooney continued, "During the first nine months of 2015, we further strengthened our balance sheet and positioned the company for improved performance. Total debt outstanding is 26% below year-end 2014 and cash has increased 9% since December 31, 2014. We remain committed to aligning our costs with performance expectations and are implementing cost-savings initiatives that will benefit our future financial results, while we also continue to invest in targeted growth initiatives."

Total revenue

Total revenue for the three months ended September 30, 2015, decreased 16% to \$1,464,734 from \$1,744,917 for the same period a year ago. Higher sales of thin film

solar products were offset by lower revenue related to photonics products due to lower commodity costs which adversely impacted selling prices. For the first nine months of 2015, total revenue decreased 14% to \$6,421,227 from \$7,435,793 last year. The decrease in total revenue for the third quarter and 2015 year-to-date periods was principally due to lower sales volume of photonics products and lower commodity costs. Total revenue for the fourth quarter 2015 is expected to increase sequentially.

Order backlog was \$2.1 million at September 30, 2015 compared to \$1.9 million on June 30, 2015.

Gross profit

Gross profit margin increased to 26.7% of net sales for the third quarter 2015 from 23.1% for the same period in 2014 due to higher thin film solar product sales compared to a year ago and more favorable product mix. Gross profit was \$390,581 for the three months ended September 30, 2015, versus \$402,481 for the same period last year. For the first nine months of 2015, gross profit margin increased to 26.4% from 21.1% a year ago. Gross profit increased 8% to \$1,696,673 for the 2015 year-to-date period from \$1,569,724 last year. Gross profit and gross profit margin for the nine months ended September 30, 2015, benefited from higher sales of thin film solar products and favorable product mix.

Operating expense

Operating expense (including selling and administrative expense, marketing and sales expense and research and development expense) increased to \$561,293 for the third quarter 2015 from \$450,494 for the same period in 2014. Research and development expense increased 142% for the third quarter compared to a year ago primarily for sponsored research related to liquid crystal display applications. The year-over-year increase in operating expense also included higher travel expenses plus higher non-cash stock based expense and compensation expense compared to a year ago.

Operating expense for the nine months ended September 30, 2015, was \$1,645,671 compared to \$1,504,733 for the same period in 2014. The 52% increase in research and development expense for the 2015 year-to-date period was the largest dollar and percentage increase in operating expense for the first nine months of 2015 compared to

a year ago. The company continues to invest in development of new products including transparent conductive oxide systems for the liquid crystal display and thin film solar markets.

Loss Applicable to Common Shares

The loss applicable to common shares was \$189,478, or \$0.05 per share, for the third quarter 2015 compared to a loss of \$72,870, or \$0.02 per share, a year ago. For the nine months ended September 30, 2015, the loss was \$11,950, or \$0.00 per share, versus a loss of \$7,140, or \$0.00 per share, last year.

EBITDA

EBITDA (earnings before interest, income taxes, depreciation and amortization) for the third quarter 2015 was negative \$61,075 compared to EBITDA of \$65,181 a year ago. Adjusted EBITDA, which excludes non-cash stock based compensation, was negative \$4,742 for the third quarter 2015 versus EBITDA of \$108,654 last year. For the first nine months of 2015, EBITDA was \$386,992 compared to \$454,606 for the same period in 2014. Adjusted EBITDA was \$548,448 for the 2015 year-to-date period compared to \$583,315 a year ago.

Cash and Total Debt Outstanding

Cash provided by operating activities was \$508,025 for the first nine months of 2015 versus \$746,403 for the same period last year. Cash was \$1,105,351 at September 30, 2015, a 9% increase from \$1,011,956 at December 31, 2014.

Total debt outstanding was \$1,038,377 at September 30, 2015, compared to \$1,393,864 at year-end 2014.

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.

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 expectation of increased orders in the fourth quarter of this year, the company is well-positioned to take advantage of expected growth in thin film solar market, implementation of plans to gain further access in multiple markets, significant growth is expected to continue in Asia, commitment to aligning costs with performance expectations and implementing cost-savings initiatives that will benefit our future financial results and fourth quarter 2015 total revenue is expected to increase sequentially. 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, 2014. 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

	September 30, 2015 (UNAUDITED)	December 31, 2014
Current Assets		
Cash	\$ 1,105,351	\$ 1,011,956
Accounts receivable, less allowance for doubtful accounts	346,351	468,352
Inventories	1,151,302	1,678,609
Prepaid expenses	87,390	89,467
Total current assets	<u>2,690,394</u>	<u>3,248,384</u>
Property and Equipment, at cost	7,976,663	7,946,579
Less accumulated depreciation	<u>(5,531,682)</u>	<u>(5,205,675)</u>
	2,444,981	2,740,904
Other Assets	<u>64,008</u>	<u>47,426</u>
TOTAL ASSETS	<u><u>\$ 5,199,383</u></u>	<u><u>\$ 6,036,714</u></u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 349,353	\$ 444,105
Accounts payable	301,686	424,539
Customer deposits	720,160	1,281,573
Accrued expenses	236,932	208,518
Total current liabilities	<u>1,608,131</u>	<u>2,358,735</u>
Long term debt	<u>689,024</u>	<u>949,759</u>
Total liabilities	2,297,155	3,308,494
Commitments and contingencies		
Total Shareholders' Equity	<u>2,902,228</u>	<u>2,728,220</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 5,199,383</u></u>	<u><u>\$ 6,036,714</u></u>

SCI ENGINEERED MATERIALS, INC.
STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2015 AND 2014
(UNAUDITED)

	THREE MONTHS ENDED SEPT. 30,		NINE MONTHS ENDED SEPT. 30,	
	2015	2014	2015	2014
Revenue	\$ 1,464,734	\$ 1,744,917	\$ 6,421,227	\$ 7,435,793
Cost of revenue	1,074,153	1,342,436	4,724,554	5,866,069
Gross profit	390,581	402,481	1,696,673	1,569,724
SG & A expense	424,393	393,875	1,319,907	1,290,306
Research and development expense	136,900	56,619	325,764	214,427
(Loss) income from operations	(170,712)	(48,013)	51,002	64,991
Other expense	(13,765)	(18,819)	(44,838)	(52,398)
(Loss) income before provision for income taxes	(184,477)	(66,832)	6,164	12,593
Income tax benefit (expense)	1,037	-	-	(1,619)
Net (loss) income	(183,440)	(66,832)	6,164	10,974
Dividends on preferred stock	(6,038)	(6,038)	(18,114)	(18,114)
LOSS APPLICABLE TO COMMON SHARES	\$ (189,478)	\$ (72,870)	\$ (11,950)	\$ (7,140)
Earnings per share - basic and diluted				
Loss per common share				
Basic	\$ (0.05)	\$ (0.02)	\$ (0.00)	\$ (0.00)
Diluted	\$ (0.05)	\$ (0.02)	\$ (0.00)	\$ (0.00)
Weighted average shares outstanding				
Basic	3,993,925	3,866,039	3,971,168	3,861,090
Diluted	3,993,925	3,866,039	3,971,168	3,861,090

SCI ENGINEERED MATERIALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 508,025	\$ 746,403
Investing activities	(34,991)	(41,125)
Financing activities	<u>(379,639)</u>	<u>(281,874)</u>
NET INCREASE IN CASH	93,395	423,404
CASH - Beginning of period	<u>1,011,956</u>	<u>622,727</u>
CASH - End of period	<u><u>\$ 1,105,351</u></u>	<u><u>\$ 1,046,131</u></u>

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Net (loss) income	(\$183,440)	(\$66,832)	\$6,164	\$10,974
Interest	13,561	16,365	44,140	49,689
Income taxes	(1,037)	0	0	1,619
Depreciation and amortization	<u>109,841</u>	<u>115,648</u>	<u>336,688</u>	<u>392,324</u>
EBITDA	(61,075)	65,181	386,992	454,606
Stock based compensation	<u>56,333</u>	<u>43,473</u>	<u>161,456</u>	<u>128,709</u>
Adjusted EBITDA	<u><u>(\$4,742)</u></u>	<u><u>\$108,654</u></u>	<u><u>\$548,448</u></u>	<u><u>\$583,315</u></u>