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The Science of Engineered Materials™

SCI Engineered Materials, Inc. Reports Fourth Quarter and Full-Year 2015 Results

COLUMBUS, Ohio (February 9, 2016) 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 twelve months ended December 31, 2015.

Dan Rooney, President and Chief Executive Officer, said, “The pace of bookings for the first month of 2016 was sharply higher than the monthly average for the fourth quarter 2015. As previously reported, we received an order for \$460,000 of Thin Film Solar (TFS) products last month in addition to orders from current and new customers for TFS and photonics products. The growth strategy we initiated a few years ago, which includes increased manufacturing capacity and marketing support for Thin Film Solar applications, positions us well for the anticipated growth in the global TFS market. Our priorities for 2016 also include further development of innovative product solutions for the display market, which is a new market for SCI with strong growth based on industry forecasts.”

Mr. Rooney continued, “The fourth quarter and full-year 2015 results benefited from favorable product mix that contributed to higher gross profit margins for both periods. This factor combined with ongoing cost controls throughout 2015 enabled us to achieve comparatively better annual results despite a 13% decrease in annual revenue, which was attributable to reduced price and volume of a low margin commodity material. We further strengthened our balance sheet during the past 12 months, reduced total debt outstanding by 32% and increased working capital by 14%. Cash was \$1 million at year-end which is a similar amount to a year ago.”

Total revenue

Total revenue for the three months ended December 31, 2015, decreased 11% to \$1,627,408 from \$1,819,310 for the same period a year ago. Sales of photonics products were negatively impacted versus the fourth quarter 2014 by the reduced price and volume of a low margin commodity material.

For the year 2015, total revenue decreased 13% to \$8,048,635 from \$9,225,103 the prior year. Revenue from TFS product sales increased nearly \$1 million due to increased customer demand. Order backlog was \$1.9 million at December 31, 2015 compared to \$2.1 million at the end of third quarter 2015.

Gross profit

Gross profit margin was substantially higher for the fourth quarter and full year 2015 compared to the same periods a year ago. The Company's growth strategy emphasizes the sale and development of new products, which have a higher gross profit margin based on their innovative, niche market applications.

The fourth quarter 2015 gross profit margin increased to 24.7% of net sales from 15.4% the prior year, while gross profit margin for the year 2015 was 26.1% versus 20.0% for 2014. The fourth quarter 2015 gross profit margin benefited from photonic revenue and product mix, while the full-year 2015 gross margin benefited from increased volume of TFS products and overall product mix.

Gross profit was \$401,861 for the three months ended December 31, 2015, which represents a sequential quarter and year-over-year increase. For the twelve months ended December 31, 2015, gross profit increased 13% to \$2,098,534 from \$1,849,118 a year ago.

Operating expense

Operating expense (including selling and administrative expense, marketing and sales expense and research and development expense) was \$544,764 for the fourth quarter 2015 compared to \$495,198 for the same period in 2014.

Operating expense for the twelve months ended December 31, 2015, was \$2,190,435 compared versus \$1,999,931 for the same period a year ago.

The increase in fourth quarter and full-year 2015 operating expenses compared to the same periods of the prior year were principally due to increased research and development expense related to development of innovative applications for the display industry and non-cash compensation expense.

Loss Applicable to Common Shares

The loss applicable to common shares was \$161,499, or \$0.04 per share, for the three months ended December 31, 2015, compared to a loss of \$236,936, or \$0.06 per share, the prior year. For the year 2015, the loss was \$173,449, or \$0.04 per share, compared to a loss of \$244,076, or \$0.06 per share, for 2014. Higher gross profit benefited results for the three months and twelve months ended December 31, 2015, compared to the same periods a year ago.

EBITDA

EBITDA (earnings before interest, income taxes, depreciation and amortization) for the fourth quarter 2015 was negative \$31,965 compared to negative EBITDA of \$93,330 for the same period in 2014. Adjusted EBITDA, which excludes non-cash stock based compensation, was \$22,567 for the fourth quarter 2015 versus negative adjusted EBITDA of \$49,044 a year ago.

For the twelve months ended December 31, 2015, EBITDA was similar to the prior year, while adjusted EBITDA increased 7% compared to 2014.

Cash and Total Debt Outstanding

Cash provided by operating activities was \$502,584 for the year 2015 compared to \$791,994 the prior year. Cash was \$997,170 at December 31, 2015, versus \$1,011,956 a year ago.

Total debt outstanding was \$949,697 at December 31, 2015, a 32% reduction compared to 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 a 2016 priority to develop innovative product solutions for the display market. 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

	December 31, <u>2015</u>	December 31, <u>2014</u>
Current Assets		
Cash	\$ 997,170	\$ 1,011,956
Accounts receivable, less allowance for doubtful accounts	302,512	468,352
Inventories	573,114	1,678,609
Prepaid expenses	70,740	89,467
Total current assets	<u>1,943,536</u>	<u>3,248,384</u>
Property and Equipment, at cost	7,990,723	7,946,579
Less accumulated depreciation	<u>(5,642,619)</u>	<u>(5,205,675)</u>
	<u>2,348,104</u>	<u>2,740,904</u>
Other Assets	<u>61,648</u>	<u>47,426</u>
TOTAL ASSETS	<u>\$ 4,353,288</u>	<u>\$ 6,036,714</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 330,727	\$ 444,105
Accounts payable	191,475	424,539
Customer deposits	155,800	1,281,573
Accrued expenses	<u>255,017</u>	<u>208,518</u>
Total current liabilities	933,019	2,358,735
Long term debt	<u>618,970</u>	<u>949,759</u>
Total liabilities	1,551,989	3,308,494
Commitments and contingencies		
Total Shareholders' Equity	<u>2,801,299</u>	<u>2,728,220</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 4,353,288</u>	<u>\$ 6,036,714</u>

SCI ENGINEERED MATERIALS, INC.
STATEMENTS OF OPERATIONS

**FOR THE THREE AND TWELVE MONTHS ENDED
DECEMBER 31, 2015 AND 2014
(UNAUDITED)**

	THREE MONTHS ENDED DEC. 31,		TWELVE MONTHS ENDED DEC. 31,	
	2015	2014	2015	2014
Revenue	\$ 1,627,408	\$ 1,819,310	\$ 8,048,635	\$ 9,255,103
Cost of revenue	1,225,547	1,539,916	5,950,101	7,405,985
Gross profit	401,861	279,394	2,098,534	1,849,118
SG & A expense	431,861	402,542	1,751,768	1,692,848
Research and development expense	112,903	92,656	438,667	307,083
Loss from operations	(142,903)	(215,804)	(91,901)	(150,813)
Other expense	(12,558)	(17,244)	(57,396)	(69,642)
Loss before income taxes	(155,461)	(233,048)	(149,297)	(220,455)
Income tax benefit	-	2,150	-	531
Net loss	(155,461)	(230,898)	(149,297)	(219,924)
Dividends on preferred stock	(6,038)	(6,038)	(24,152)	(24,152)
LOSS APPLICABLE TO COMMON SHARES	\$ (161,499)	\$ (236,936)	\$ (173,449)	\$ (244,076)
Earnings per share - basic and diluted				
Loss per common share				
Basic	\$ (0.04)	\$ (0.06)	\$ (0.04)	\$ (0.06)
Diluted	\$ (0.04)	\$ (0.06)	\$ (0.04)	\$ (0.06)
Weighted average shares outstanding				
Basic	4,008,878	3,908,844	3,980,670	3,873,986
Diluted	4,008,878	3,908,844	3,980,670	3,873,986

SCI ENGINEERED MATERIALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 502,584	\$ 791,994
Investing activities	(49,051)	(57,649)
Financing activities	<u>(468,319)</u>	<u>(345,116)</u>
NET (DECREASE) INCREASE IN CASH	(14,786)	389,229
CASH - Beginning of period	<u>1,011,956</u>	<u>622,727</u>
CASH - End of period	<u>\$ 997,170</u>	<u>\$ 1,011,956</u>

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2015 AND 2014

	Three months ended Dec. 31,		Twelve months ended Dec. 31,	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Net loss	(\$155,461)	(\$230,898)	(\$149,297)	(\$219,924)
Interest	12,558	17,244	56,698	66,933
Income taxes	-	(2,150)	-	(531)
Depreciation and amortization	<u>110,938</u>	<u>122,474</u>	<u>447,626</u>	<u>514,798</u>
EBITDA	(31,965)	(93,330)	355,027	361,276
Stock based compensation	<u>54,532</u>	<u>44,286</u>	<u>215,988</u>	<u>172,995</u>
Adjusted EBITDA	<u>\$22,567</u>	<u>(\$49,044)</u>	<u>\$571,015</u>	<u>\$534,271</u>