



Contact: Robert Lentz
(614) 876-2000

The Science of Engineered Materials®

SCI Engineered Materials, Inc. Reports Third Quarter and Nine Month 2016 Results

COLUMBUS, Ohio (October 27, 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 nine months ended September 30, 2016.

Dan Rooney, President and Chief Executive Officer, stated, "Our top and bottom-line results for the third quarter improved sequentially and compared to the same period a year ago. This year began with increased optimism that SCI's sales to the global thin film solar market were positioned to accelerate. In a recent press release we reported the termination of a substantial order due to many unsuccessful attempts to contact the customer. Slower than anticipated sales of thin film solar products was principally due to the canceled order and requests from some customers to adjust the scheduled delivery of their orders. We are working closely with all of our customers to adapt to their changing plans and needs. Although thin film solar sales are below expectations in 2016 we continue to believe the long-term growth potential remains favorable. Our sales team is actively pursuing opportunities in the thin film solar market and new photonic applications in the automotive sector."

Revenue

Revenue increased approximately 14% to \$1,664,979 for the three months ended September 30, 2016, compared to \$1,464,734 for the same period in 2015 principally due to higher price and volume of a low margin commodity. For the first nine months of 2016, revenue decreased 34% to \$4,246,275 from \$6,421,227 a year ago. This decrease was attributable to a decline in the average cost of a key raw material and lower overall volume versus the same period in 2015. Order backlog at September 30, 2016, was \$1.2 million compared to \$2.1 million on the same date last year.

Gross profit

Gross profit increased approximately 4% to \$370,463 for the third quarter of 2016 compared to \$357,325 for the same period in 2015 due to higher revenue. For the 2016 year-to-date period, gross profit decreased to \$916,932 from \$1,601,217 a year ago due to lower revenue.

The third quarter 2016 gross profit margin decreased to 22.3% from 24.4% for the same period in 2015. For the first nine months of 2016, gross profit margin was 21.6% compared to 24.9% the prior year.

Operating expense

Operating expense (including general and administrative expense, marketing and sales expense and research and development expense) decreased 17% and 12%, respectively, for the third quarter and first nine months of 2016 compared to a year ago. Expense for each line item was below the prior year amount for the three month and nine month periods in 2016. The decrease in third quarter and 2016 year-to-date research and development expense was due to completion of sponsored research that concluded early in the first quarter of 2016. The Company continues to selectively invest in development of new products in all of its 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 \$83,450 or \$0.02 per share for the three months ended September 30, 2016 compared to a loss of \$189,478 or \$0.05 per share last year. For the first nine months of 2016, the loss applicable to common shares was \$503,716 or \$0.12 per share versus a loss of \$11,950 or breakeven per share for the same period a year ago.

EBITDA

EBITDA (earnings before interest, income taxes, depreciation and amortization) was \$48,787 for the third quarter 2016 versus negative EBITDA of \$61,075 for the same period last year. For the 2016 year-to-date period, EBITDA was negative \$110,803 compared to EBITDA of \$386,992 for the first nine months of 2015.

Adjusted EBITDA, which excludes non-cash stock based compensation, was \$101,759 for the three months ended September 30, 2016 versus negative adjusted EBITDA of \$4,742 the prior year. For the first nine months of 2016, adjusted EBITDA was \$47,272 compared to \$548,448 a year ago.

Cash and Total Debt Outstanding

Cash provided by operating activities was \$128,563 for the nine months ended September 30, 2016, versus \$508,025 for the same period a year ago. Cash on hand was \$780,838 at September 30, 2016, versus \$997,170 at December 31, 2015. Total debt outstanding decreased 13% from year-end 2015 to approximately \$813,000 at September 30, 2016.

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 and <https://www.facebook.com/SCI-Engineered-Materials-Inc-186808211709200/>

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 2016 thin film solar sales which are below expectations and the Company continues to believe the long-term growth potential remains favorable. 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

| | September 30, 2016 (UNAUDITED) | December 31, 2015 |
|---|---|------------------------------|
| Current Assets | | |
| Cash | \$ 780,838 | \$ 997,170 |
| Accounts receivable, less allowance for doubtful accounts | 419,322 | 302,512 |
| Inventories | 668,272 | 573,114 |
| Prepaid expenses | 59,203 | 61,301 |
| Total current assets | 1,927,635 | 1,934,097 |
| Property and Equipment, at cost | 8,201,478 | 7,990,723 |
| Less accumulated depreciation | (5,961,068) | (5,642,619) |
| | 2,240,410 | 2,348,104 |
| Other Assets | 50,621 | 51,422 |
| TOTAL ASSETS | \$ 4,218,666 | \$ 4,333,623 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|---|---------------------|---------------------|
| Current Liabilities | | |
| Short term debt | \$ 293,826 | \$ 321,288 |
| Accounts payable | 272,858 | 191,475 |
| Customer deposits | 482,834 | 155,800 |
| Accrued expenses | 172,106 | 255,017 |
| Total current liabilities | 1,221,624 | 923,580 |
| Long term debt | 519,070 | 608,744 |
| Total liabilities | 1,740,694 | 1,532,324 |
| Commitments and contingencies | | |
| Total Shareholders' Equity | 2,477,972 | 2,801,299 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 4,218,666 | \$ 4,333,623 |

**SCI ENGINEERED MATERIALS, INC.
STATEMENTS OF OPERATIONS**

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(UNAUDITED)**

| | THREE MONTHS ENDED SEPT. 30, | | NINE MONTHS ENDED SEPT. 30, | |
|--|-------------------------------------|---------------------|------------------------------------|--------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Revenue | \$ 1,664,979 | \$ 1,464,734 | \$ 4,246,275 | \$ 6,421,227 |
| Cost of revenue | 1,294,516 | 1,107,409 | 3,329,343 | 4,820,010 |
| Gross profit | 370,463 | 357,325 | 916,932 | 1,601,217 |
| SG & A expense | 349,118 | 391,341 | 1,126,400 | 1,225,149 |
| Research & Development expense | 87,246 | 136,900 | 241,739 | 325,764 |
| (Loss) income from operations | (65,901) | (170,916) | (451,207) | 50,304 |
| Interest | 11,511 | 13,561 | 34,352 | 44,140 |
| (Loss) income before provision for income taxes | (77,412) | (184,477) | (485,559) | 6,164 |
| Income tax expense | - | (1,037) | 43 | - |
| Net (loss) income | (77,412) | (183,440) | (485,602) | 6,164 |
| Dividends on preferred stock | 6,038 | 6,038 | 18,114 | 18,114 |
| (LOSS) INCOME APPLICABLE TO COMMON SHARES | \$ (83,450) | \$ (189,478) | \$ (503,716) | \$ (11,950) |
| Earnings per share - basic and diluted | | | | |
| (Loss) income per common share | | | | |
| Basic | \$ (0.02) | \$ (0.05) | \$ (0.12) | \$ (0.00) |
| Diluted | \$ (0.02) | \$ (0.05) | \$ (0.12) | \$ (0.00) |
| Weighted average shares outstanding | | | | |
| Basic | 4,061,374 | 3,993,925 | 4,042,199 | 3,971,168 |
| Diluted | 4,061,374 | 3,993,925 | 4,042,199 | 3,971,168 |

**SCI ENGINEERED MATERIALS, INC.
CONDENSED STATEMENTS OF CASH FLOWS**

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|--|------------|--------------|
| CASH PROVIDED BY (USED IN): | | |
| Operating activities | \$ 128,563 | \$ 508,025 |
| Investing activities | (79,803) | (34,991) |
| Financing activities | (265,092) | (379,639) |
| NET (DECREASE) INCREASE IN CASH | (216,332) | 93,395 |
| CASH - Beginning of period | 997,170 | 1,011,956 |
| CASH - End of period | \$ 780,838 | \$ 1,105,351 |

**RECONCILIATION OF GAAP TO NON-GAAP MEASURES
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

| | Three months ended September 30, | | Nine months ended September 30, | |
|-------------------------------|----------------------------------|--------------|---------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Net (loss) income | \$ (77,412) | \$ (183,440) | \$ (485,602) | \$ 6,164 |
| Interest | 11,511 | 13,561 | 34,352 | 44,140 |
| Income taxes | - | (1,037) | 43 | - |
| Depreciation and amortization | 114,688 | 109,841 | 340,404 | 336,688 |
| EBITDA | 48,787 | (61,075) | (110,803) | 386,992 |
| Stock based compensation | 52,972 | 56,333 | 158,075 | 161,456 |
| Adjusted EBITDA | \$ 101,759 | \$ (4,742) | \$ 47,272 | \$ 548,448 |