UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended December 31, 2015

Commission File Number: 0-31641

SCI ENGINEERED MATERIALS, INC.

(Exact name of registrant as specified in its charter)

Ohio	**31-1210318**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2839 Charter Street
Columbus, Ohio 43228
(Address of principal executive offices)
Registrant’s telephone number, including area code: **(614) 486-0261**

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, without par value (Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes☐ No ☑

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 past 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 at least the past 90 days.
Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, 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 and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of the Registrant’s common equity held by non-affiliates of the Registrant was approximately $3,845,932 on June 30, 2015**.** For purposes of this disclosure, shares of common stock held by persons who hold more than 10% of the outstanding shares of common stock and shares held by executive officers and directors of the registrant have been excluded because such persons may be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.

There were 4,017,711 shares of the Registrant’s Common Stock outstanding on January 31, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for the 2016 Annual Meeting of Stockholders are incorporated by reference in Part III.

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Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 26A of the Securities Act of 1933, as amended. The words “anticipate,” “believe,” “expect,” “estimate,” and “project” and similar words and expressions identify forward-looking statements, which speak only as of the date hereof. Investors are cautioned that such statements involve risks and uncertainties that could cause actual results to differ materially from historical or anticipated results due to many factors, including, but not limited to, the factors discussed in “Risk Factors.” The Company undertakes no obligation to publicly update or revise any forward-looking statements.

PART I

ITEM 1. BUSINESS

Introduction

SCI Engineered Materials, Inc. (“SCI”, “we” or the “Company”), formerly Superconductive Components, Inc., an Ohio corporation, was incorporated in 1987. We operate in one segment as a global supplier and manufacturer of advanced materials for Physical Vapor Deposition (“PVD”) Thin Film Applications. We are focused on specific markets within the PVD industry (Photonics, Thin Film Solar, Glass, Thin Film Battery and Transparent Electronics). Substantially all of our revenues were generated from customers with multi-national operations. We have made a considerable resource investment in the Thin Film Solar industry and a few customers have adopted our products. Thin Film Battery is a developing market where manufacturers of batteries use our products to produce very small power supplies with small quantities of stored energy. Through partnerships with end users and Original Equipment Manufacturers the Company develops innovative customized solutions enabling commercial success.

History of the Company

The late Dr. Edward Funk, Sc.D., and his late wife Ingeborg founded SCI in 1987. Dr. Funk, formerly a Professor of Metallurgy at The Ohio State University and a successful entrepreneur, envisioned significant market potential for the newly discovered High Temperature Superconductivity (“HTS”) material YBCO (T_c of 90º K). Our first product was a 99.999% pure, co-precipitated YBCO 1-2-3 powder. Over the years we expanded our product line by adding other High T_c Powders, sintered shapes, single crystal substrates, and non-superconducting sputtering targets. At this time we are not pursuing this market but these early years of development is the foundation from which our material science experience is built.

We opened a subdivision, Target Materials Inc. (“TMI”), in 1991 to supply the increasing worldwide demand for sputtering and laser ablation targets. We became a full service manufacturer of high performance thin film materials, providing a wide selection of metals, ceramics, and alloys for sputtering targets, evaporation sources, and other Physical Vapor Deposition (“PVD”) applications. We served the Research & Development market as well as the Industrial and Decorative Coating markets. During this time, we began to manufacture targets for the Photovoltaic, Flat Panel Display, and Semiconductor industries.

SCI and TMI were merged in 2002. We continued to manufacture complex ceramic, metal, and alloy products for the photonic, photovoltaic, thin film battery, media storage, flat panel display, and semiconductor industries.

In April of 2010, we received ISO 9001:2008 registration, an internationally recognized quality standard. Prior to April 2010 we were ISO 9001:2000 registered.

Throughout our history, we have conducted funded research primarily under grants from entities such as the Department of Energy, the National Science Foundation, NASA, and the Ohio Development Services Agency (formally known as the Ohio Department of Development). These activities are generally limited to funded research that is consistent with our focus on near term commercial applications in our principal markets.

For nearly three decades we have been developing considerable expertise in the development and manufacturing ramp-up of novel materials, such as Transparent Conductive Oxides for Thin Film Solar applications and targets for thin film batteries. Today, we serve a diverse base of domestic and multi-national corporations, universities, and leading research institutions. We actively seek to partner with organizations to provide solutions for difficult material challenges.

Business

We are a supplier of materials to the PVD industry. Our customers need our materials to produce nano layers of metals and oxides for advanced material systems. PVD coatings range from everyday items to complex computer processors. Every day applications include transparent anti-scratch coatings on eyeglasses, coatings on kitchen faucets, as well as low emissivity glass for household windows. More technically advanced applications for our products include semiconductors, thin film solar, flat panel displays, photonics and an emerging technology - Thin Film Battery.

We continue to pursue niche opportunities where our core competencies give us an advantage. We receive requests from potential customers in other markets within the PVD industry. We consider these on a case by case basis and are pursuing some opportunities that fit our core competencies and manufacturing capabilities. This disciplined approach enables us to focus on those opportunities that are the best fit for our capabilities and also offer the greatest long-term return. Considerations include our core strengths, resource requirements, and time-to-market.

Photonics currently represents the largest market for our materials. Our customers are continually identifying new materials that improve the utility of optical coatings. This includes improvements in their ability to focus, filter or reflect light, all of which increase the potential demand for the types and amounts of products we sell in this market. Photonic applications continue to expand as new methods are found to manipulate light waves to enhance the various applications for light.

We have developed products for the Thin Film Solar ("TFS") market. We are well positioned in the TFS area having supplied materials to that market for over fifteen years from the early stages of TFS development. We continue to increase our visibility in the global arena by attending various trade shows targeted at the solar market. We have added exclusive representatives for Korea, China, Taiwan and Japan. Market expansion is expected to continue in 2016 and we are poised to benefit, with minimal capital additions, as TFS grows. We see increased opportunities in both domestic and foreign markets.

We continued to develop TCO systems for the solar and glass markets and added domestic and international customers for these products. Despite short term uncertainties, the solar industry is projected to have strong growth for the next few decades. The TFS market, which we serve, is expected to gain market share in roof applications with low weight flexible products during that period. Given current market opportunities, we continue to invest in research and development, marketing, and sales.

We are having tests conducted with our TCO material in display applications. In addition, we have a R&D program to develop materials for Thin Film Transistor applications in displays.

Thin Film Battery is a developing market where manufacturers of batteries use our lithium cobalt oxide ($LiCoO2$) targets as a key element to produce power supplies with small quantities of stored energy. A typical Thin Film Battery would be produced via PVD with five or more thin layers. These batteries are often one centimeter square but only 15 microns thick. Following several years of industry developments, some Thin Film Battery customers announced their batteries are commercially available. Our customers anticipate the unique properties of these batteries could be used in applications in wearable electronic devices, integrated circuits, RFID, smart cards, hand held and flexible electronics and many other applications.

We continue to invest in developing new products for all current markets which include accelerating time to market.

For the year ended December 31, 2015, we had total revenue of $8,048,635. This was a decrease of $1,206,468, or 13.0% when compared to 2014. The reduction in revenue was caused by lower commodity pricing and volume of a high priced raw material. Revenue in our thin film solar market grew due to increased volume from customer demand.

Our largest customer represented approximately 65% of total revenues in 2015 and 47% in 2014.

Marketing and Sales

Europe and Asia, as well as the Americas, have high demand for sputtering targets. We continue to expand our global marketing reach. We have a manufacturer's representative in the Korean market and the Taiwan and China markets. We also have a distributor for Japan. We use various distribution channels to reach end user markets, including direct sales by our employees, independent manufacturers' representatives in the United States, and independent distributors and manufacturers' representatives for international markets. Also, the internet provides tremendous reach for new customers to be able to identify us as a source of their product needs. We have an operating website, www.scienginee redmaterials.com, which includes online product inquiry capabilities and additional product information.

Ceramics

We are capable of producing ceramic powders via several different processing techniques including solid state and precipitation. Ceramic targets can also be produced in a variety of ways depending on the end user applications. Production techniques include sintering, cold isostatic pressing and hot pressing.

Most of our products are manufactured from component chemicals and metal oxides supplied by various vendors. If we suddenly lost the services of a supplier, there could be a disruption in our manufacturing process until the supplier was replaced. We have identified several firms as potential back-up suppliers that would be capable of supplying these materials to us as necessary.

Metals

In addition to the ceramic targets previously mentioned, we produce metal sputtering targets and backing plates. The targets are bonded to the backing plates for application in the PVD industry. These targets can be produced by casting, hot pressing and machining of metals and metal alloys depending on the application.

Applications for metal targets are highly varied from applying decorative coatings for end uses such as sink faucets to the production of various electronic, photonic and semiconductor products.

We purchase various metals of reasonable high purity (often above 99.9%) for our applications. We are not dependent on a single source for these metals and do not believe losing a vendor would materially affect our business.

We have continually added production processes and testing equipment to enable us to manufacture and qualify many product compositions that can be used as PVD materials.

Competition

We have a number of domestic and international competitors in both the ceramic and metal fields, many of whom have resources far in excess of our resources. Tosoh, Materion, Kurt Lesker and Heraeus are competing suppliers in regard to targets.

Suppliers

Principal suppliers in 2015 were Six Nine Metals, 5N Plus, and Johnson Matthey. In every case, we have established alternate vendors that can be used to ensure availability of required materials. As volume grows, we may enter into alliances or purchasing contracts with these or other vendors.

Research and Development

We are developing sputtering targets for transparent electronic applications, which could be used to produce transparent thin film transistors via PVD processing. We have ongoing development for product improvements and new Transparent Conductive Oxide (TCO) for Thin Film Solar and wide area glass coating applications. Much of the development for these new products is based on doping zinc oxide (ZnO). We have developed considerable expertize working with ZnO from our AZO development. We are also developing a dielectric material for Semiconductor applications and an aluminum composite for a decorative coating. We focus our research and development efforts in areas that build on our core competencies.

We may seek funded research opportunities within our core competencies that maintain and expand technical understanding within our company.

We have a collaborative program with Kent State University to evaluate our TCO materials in liquid crystal display applications.

We have certain proprietary knowledge and trade secrets related to the manufacture of metal oxide PVD materials and patents covering some High Temperature Superconductor products.

New Product Initiatives

We developed, produced and sold prototypes and innovative evaluation targets for glass coating applications and successful testing of our materials was completed. We anticipate commercializing this product in 2016.

We continue to develop TCO target materials for the Thin Film Solar market in partnership with both original equipment manufacturers and Thin Film Solar Cell panel fabricators. A combination of the Third Frontier Programs and loans provided by the Ohio Department of Development and the Ohio Air Quality Development Authority have enabled us to accelerate both our development of new products and expanding our manufacturing capacity to meet demands in an evolving marketplace.

During 2015 we expanded our research team by adding a PhD with years of experience in the display field. We are exploring opportunities in material systems utilizing zinc oxide and tin oxide doped with various materials for applications in displays and memory. There is considerable research being conducted to identify new and improved metal oxide thin film transistors (MOTFT) at the corporate and university level. These materials are a good fit with our core competencies. In addition, some of the MOTFT use the same base materials as our TCOs. Certain of the MOTFT materials could use similar or the same equipment as has been acquired for the manufacture of TCO products. We are continuing to develop additional contacts in R&D departments of several companies and at Universities focused on these areas of research.

We continue to pursue research and development opportunities with respect to new and innovative materials and processes to be used in connection with the production of solid state Thin Film Batteries. Presently, there are a few manufacturers of Thin Film Batteries in the United States, each in various stages of development from prototype to commercial activity. In addition, globally there are several firms and research institutes conducting tests on Thin Film Batteries. We believe this market may potentially become large with growth expected during the next few years. There are numerous applications for Thin Film Batteries, including, but not limited to, active RFID tags, battery on chip, portable electronics, medical implant devices, remote sensors and wearable devices. Given the many potential uses for Thin Film Batteries, we anticipate that the market for materials will grow in direct proportion to the Thin Film Battery market itself.

We currently face competition from other producers of materials used in connection with the manufacture of Thin Film Batteries. We believe that we have certain competitive advantages in terms of quality. We intend to actively market our materials to Thin Film Battery producers in the upcoming year in order to maintain our strong presence in this market.

Intellectual Property

We have received a patent for Fine-Particle Bi-Sr-Ca-Cu-O Having High Phase Purity made by a Chemical Precipitation and Low-Pressure Calcination method from the United States Patent and Trademark Office. We also have received a patent for a process to join two individual strongly linked super-conductors utilizing a melt processing technique.

During April 2015, the Board of Directors voted to acquire the rights to a provisional patent owned by one of the directors for technology related to the application of Zinc Oxide based Transparent Conductive Oxide in Displays and the value thereof. The Board approved a motion to acquire the rights to the provisional patent and any subsequent patents for this technology.

In the future, we may submit additional patent applications covering various inventions which have been developed by us. Because the publication of U.S. patent applications can be delayed for up to one year, they tend to lag behind actual discoveries and we may not be the first creator of inventions covered by pending patent applications or the first to file patent applications for such inventions. Additionally, other parties may independently develop similar technologies, duplicate our technologies or, if patents are issued to us or rights licensed by us, design around the patented aspects of any technologies we developed or licensed.

We rely on a combination of patent and trademark law, license agreements, internal procedures and nondisclosure agreements to protect our intellectual property. Unfortunately, these may be invalidated, circumvented or challenged. In addition, the laws of some foreign countries in which our products may be produced or sold may not protect our intellectual property rights to the same extent as the laws of the United States.

Employees

We had 24 full-time employees as of December 31, 2015. One of these employees holds a PhD in Material Science and another holds a PhD in Physics. One of these individuals has expertise in application for the Display market. We have never experienced a work stoppage and consider our relations with employees to be good. The employees do not have a bargaining unit.

Environmental Matters

We handle all materials according to Federal, State and Local environmental regulations and include Material Safety Data Sheets (MSDS) with all shipments to customers. We maintain a collection of MSDS sheets for all raw materials used in the manufacture of products and maintenance of equipment and insure that all personnel follow the handling instructions contained in the MSDS for each material. We contract with a reputable fully permitted hazardous waste disposal company to dispose of the small amount of hazardous waste generated.

Collections and Write-offs

We collected receivables in an average of 25 days in 2015. We have occasionally been forced to write-off negligible amount of accounts receivable as uncollectible. During 2015 we wrote off a receivable of approximately $11,000. We consider credit management critical to our success.

Seasonal Trends

We have not experienced and do not expect to experience seasonal trends in future business operations.

ITEM 1A. RISK FACTORS

We desire to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The following factors have affected or could affect actual results and could cause such results to differ materially from those expressed in any forward-looking statements made. Investors should consider carefully the following risks and speculative factors inherent in and affecting the business of SCI and an investment in our common stock.

We have limited marketing and sales capabilities.

We continue to develop our marketing in Asia. We have a manufacturing representative for the Korean market and another for the Taiwanese and Chinese markets. We also added support for Japan. We must continue to develop appropriate marketing, sales, technical, customer service and distribution capabilities, or enter into agreements with third parties to provide these services to successfully market our products. A failure to develop these capabilities or obtain third-party agreements could adversely affect us.

Our success depends on our ability to retain key management personnel.

Our success depends in large part on our ability to attract and retain highly qualified management, administrative, manufacturing, sales, and research and development personnel. Due to the specialized nature of our business, it may be difficult to locate and hire qualified personnel. The loss of services of one of our executive officers or other key personnel, or our failure to attract and retain other executive officers or key personnel could have a material adverse effect on our business, operating results and financial condition. Dan Rooney, our chief executive officer has an employment agreement with the Company that contains non-competition provisions as well as severance payments. All other key management personnel have entered into non-competition agreements with the Company. Although we have been successful in planning for and retaining highly capable and qualified successor management in the past, there can be no assurance that we will be able to do so in the future.

We have a history of operating losses and may incur losses in the future.

For the year ended December 31, 2015, we had a loss from operations of $91,901 compared to $150,813 for the year ended December 31, 2014. We provide no assurances that we will be able to operate profitably in the future. Operating expenses were $2,190,435 and $1,999,931 during 2015 and 2014, respectively. This was an increase of $190,504, or 9.5%. Included in this increase was higher research and development expense of $131,584 which represented 69.1% of the operating expense increase. We continue to invest in developing new products for all of our markets including transparent conductive oxide systems within the thin film solar industry. We also have ongoing development efforts with our thin film battery materials and transparent electronic products. These efforts include accelerating time to market for those products and involve ongoing research & development expense.

During the second half of 2014, we incurred expenses of approximately $140,000 related to write offs of account receivables and inventory in the solar and glass markets. To reduce our risk, for the next few periods and perhaps longer, we are requiring prepayment before supplying products to the solar market.

As of December 31, 2015, we had an accumulated deficit of approximately $9,755,000. Management's plans with respect to the objective of improving liquidity and profitability in future years include continuing to expand our business into new and current markets for our products, developing new products and increasing our revenue and presence in those markets. Management believes the actions that began during 2014 and 2015 provide the opportunity for improved liquidity and profitability. However, no assurances are made that such actions will result in sustained profitability.

Our competitors have far greater financial and other resources than we have.

The market for PVD materials is a substantial market with significant competition in both ceramic and metal materials. While we believe that our products enjoy certain competitive advantages in design, function, quality, and availability, considerable competition exists from well-established firms such as Materion Corporation, Kurt Lesker, Heraeus and Tosoh, all of which have more financial resources than us. We cannot provide assurance that developments by others will not render our products or technologies obsolete or less competitive.

Our patents and proprietary rights may not be enforceable.

We rely on a combination of patent and trademark law, license agreements, internal procedures and nondisclosure agreements to protect our intellectual property. These may be invalidated, circumvented or challenged. In addition, the laws of some foreign countries in which our products may be produced or sold may not protect our intellectual property rights to the same extent as the laws of the United States. Our failure to protect our proprietary information could adversely affect us.

Rights we have to patents and pending patent applications may be challenged.

During 2015 we were granted a federal trademark for "the Science of Engineered Materials".

We have received, from the United States Patent and Trademark Office, a patent for Fine-Particle Bi-Sr-Ca-Cu-O Having High Phase Purity made by a Chemical Precipitation and Low-Pressure Calcination method, and have also received a patent for a process to join two individual strongly linked super-conductors utilizing a melt processing technique. In the future, we may submit additional patent applications covering various applications. The patent applications that we may file in the future may not result in patents being issued, and any patents issued may not afford meaningful protection against competitors with similar technology, and may be challenged by third parties.

Because U.S. patent applications are maintained in secret until patents are issued, and because publications of discoveries in the scientific or patent literature tend to lag behind actual discoveries by several months, we may not be the first creator of inventions covered by issued patents or pending patent applications or the first to file patent applications for such inventions. Moreover, other parties may independently develop similar technologies, duplicate our technologies or, if patents are issued to us or rights licensed by us, design around the patented aspects of any technologies we developed or licensed. We may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine the priority of inventions, which could result in substantial costs. Litigation may also be necessary to enforce any patents held by or issued to us or to determine the scope and validity of others' proprietary rights, which could result in substantial costs.

The rapid technological changes of our industry may adversely affect us if we do not keep pace with advancing technology.

The PVD market is characterized by rapidly advancing technology. Our success depends on our ability to keep pace with advancing technology and processes and industry standards. We have focused our development efforts on sputtering targets. We intend to continue to develop innovative materials and integrate those advances to the thin film coatings industry. However, our development efforts may be rendered obsolete by research efforts and technological advances made by others, and materials other than those we currently use may prove more advantageous.

Additional development of our products may be necessary due to uncertainty regarding development of markets.

Some of our products are in the early stages of commercialization and we believe that it will be several years before these products will have significant commercial end-use applications, and that significant development work may be necessary to improve the commercial feasibility and acceptance of these products. There can be no assurance that we will be able to commercialize any of the products currently under development.

To date, there has been no widespread commercial use of HTS products. Additionally, the market for the Thin Film Battery materials is still in its early stages. At present, we have customers for the materials we produce for Thin Film Batteries. Since we have begun producing materials for the Thin Film Battery market, we have experienced no problems securing the supplies needed to produce the materials. We do not anticipate supply problems in the near future. However, changes in production methods and advancing technologies could render our current products obsolete and new production protocols may require supplies that are less available in the marketplace, which may cause a slowing or complete halt to production as well as expanding costs which we may or may not be able to pass on to our customers. Some of our materials are in early stages of development for Thin Film Solar (TFS) applications. The TFS market is expected to grow during the next several years.

Changes in the strategies of key trade customers may adversely affect our business.

Our products are sold in a highly competitive global marketplace which continues to experience increased concentration. We may be negatively affected by changes in the strategies of our trade customers, such as inventory de-stocking, limitations on access to shelf space, delisting of our products, and other conditions. If we lose a key customer or if sales of our products to a key customer materially decrease, our financial condition and results of operations may be adversely affected.

If Thin Film Solar technology is not suitable for widespread adoption or takes longer to develop than we anticipate, our sales may not be sufficient to achieve profitability.

The Thin Film Solar energy market that we supply is at a relatively early stage of development, and the extent to which thin film solar modules will be widely adopted is uncertain. Although the industry has experienced rapid growth, overcapacity in the market created difficulties for some of our current and potential customers in the Thin Film Solar industry. Adoption of our products by parts of this market is important to our long term growth. If the technology proves unsuitable for widespread adoption at economically attractive rates of return or if demand for Thin Film Solar modules fails to develop sufficiently or takes longer to develop than we anticipate, we may be unable to grow our business or generate sufficient sales to achieve profitability.

Our failure to comply with our debt covenants could have a material adverse effect on our business, financial condition or results of operations.

Our debt agreements contain certain covenants. A breach of any of these covenants could result in a default under the applicable agreement. In the past our lenders have granted us a waiver or amendment when we sought relief from covenants. If a default were to occur, we would likely seek a waiver of that default, attempt to reset the covenant, or refinance the instrument and accompanying obligations. If we were unable to obtain this relief, the default could result in the acceleration of the total due related to that debt obligation. If a default were to occur, we may not be able to pay our debts or borrow sufficient funds to refinance them. Any of these events, if they occur, could materially adversely affect our results of operations, financial condition, and cash flows.

A lack of credit and/or limited financing availability to the Company, its vendors, dealers, or end users could adversely affect our business.

Our liquidity and financial condition could be materially and adversely affected if our ability to borrow money from new or existing lenders to finance our operations is reduced or eliminated. Similar adverse effects may also result if we realize lessened credit availability from trade creditors. Additionally, many of our customers require availability of financing to facilitate the purchase of our products. As a result, a continuing period of reduced credit availability in the marketplace could have adverse effects on our business.

Environmental compliance costs and liabilities associated with our facility may have a material adverse effect on our business, financial condition, results of operations and prospects.

We are subject to various federal, state and local environmental and health and safety laws and regulations with respect to our operations. These laws and regulations address various matters, including asbestos, fuel oil management, wastewater discharges, air emissions, and hazardous wastes. The costs of complying with these laws and regulations and the penalties for non-compliance can be substantial. For example, with respect to leased property, we may be held liable for costs relating to the investigation and cleanup of our leased property from which there has been a release or threatened release of a regulated material as well as other properties affected by the release. In addition to these costs, which are typically not limited by law or regulation and could exceed the property's value, we could be liable for certain other costs, including, without limitation, governmental fines and injuries to persons, property or natural resources. Further, some environmental laws create a lien on the contaminated site in favor of the government for damages and the costs it incurs in connection with the contamination. While we are not aware of any potential environmental problems, no assurances are made that such problems and costs associated with them will not arise in the future. If any of our properties were found to violate environmental laws, we may be required to expend significant amounts of time and money to rehabilitate the property, and we may be subject to significant liability. Any environmental compliance costs and liabilities incurred may have a material adverse effect on our business, financial condition, results of operations and prospects.

Disaster and other adverse events may seriously harm our business.

Our manufacturing facility may suffer harm as a result of natural or man-made disasters such as storms, earthquakes, hurricanes, tornadoes, floods, fires, terrorist attacks and other conditions. Such events may disrupt our operations, harm our operations and employees, severely damage or destroy our facility, harm our business, reputation and financial performance, or otherwise cause our business to suffer in ways that cannot currently be predicted.

Our business requires us to make capital expenditures to maintain and improve our facilities.

Our facilities sometimes require capital expenditures to address ongoing required maintenance and upgrade our capabilities. In addition, we often are required to make significant capital expenditures in order to satisfy customer requirements and to produce newly developed products.

Takeover defense provisions in Ohio law and our corporate governance documents may delay or prevent takeover attempts preventing our shareholders from realizing a premium on their stock.

Various provisions of the Ohio corporation laws as well as our corporate governance documents may inhibit changes in control not approved by our Board of Directors and may have the effect of depriving our investors of an opportunity to receive a premium over the prevailing market price of our common stock in the event of an attempted hostile takeover. In addition, the existence of these provisions may adversely affect the market price of our common stock. These provisions include:

- A requirement that a special meeting of the shareholders must be called by our Board of Directors, Chairman, the President or the holders of shares with voting powers of at least fifty percent (50%);
- Advanced notice requirements for shareholder proposals and nominations; and
- The availability of "blank check preferred stock."

Our Board of Directors can use these and other provisions to prevent, delay or discourage a change in control of the company or a change in our management. Any such delay or prevention of a change in control of management could deter potential acquirers or prevent the completion of a takeover transaction to which our shareholders could receive a substantial premium over the current market price of our common stock, which may in turn limit the price investors might be willing to pay for our common stock.

Provisions in our Articles of Incorporation and Code of Regulations provide for indemnification of officers and directors which could require us to divert funds away from our business and operations.

Our Articles of Incorporation and Code of Regulations provide for the indemnification of our officers and directors. We may be required to advance costs incurred by an officer or director to pay judgments, fines and expenses incurred by an officer or director, including reasonable attorneys' fees, as a result of actions or proceedings in which our officers and directors are involved by reason being or having been an officer or director of our company. Funds paid in satisfaction of judgments, fines, and expenses may be funds we need for operation and growth of our business.

The market for our common stock is limited, and as such our shareholders may have difficulty reselling their shares when desired or at attractive market prices.

Our stock price and our listing may make it more difficult for our shareholders to resell shares when desired or at attractive prices. In 2001, our stock began trading on The Over the Counter Bulletin Board, now known as the OTC Markets. Our common stock trades in low volumes and at low prices. Some investors view low-priced stocks as unduly speculative and therefore not appropriate candidates for investment. Many institutional investors have internal policies prohibiting the purchase or maintenance of positions in low-priced stocks. This has the effect of limiting the pool of potential purchases of our common stock at present price levels. Shareholders may find greater percentage spreads between bid and asked prices, and more difficulty in completing transactions and higher transaction costs when buying or selling our common stock than they would if our stock were listed on a major stock exchange, such as The New York Stock Exchange or The Nasdaq National Market.

Our common stock has been subject to the Securities and Exchange Commission's "penny stock" regulations, which may limit the liquidity of common stock held by our shareholders.

Effective January 28, 2015 our common stock began trading on the OTC Markets' OTCQX Market Tier under the symbol "SCIA." We upgraded from the OTC Markets' OTCQB Market Tier. Based on its trading price, our common stock is considered a "penny stock" for purposes of federal securities laws, and therefore has been subject to regulations, which affected the ability of broker-dealers to sell our securities. Broker-dealers who recommend a "penny stock" to persons (other than established customers and accredited investors) must make a special written suitability determination and receive the purchaser's written agreement to a transaction prior to sale.

If penny stock regulations apply to our common stock, it may be difficult to trade the stock because compliance with the regulations can delay and/or preclude certain trading transactions. Broker-dealers may be discouraged from effecting transactions in common stock because of the sales practice and disclosure requirements for penny stock. This could adversely affect the liquidity and/or price of our common stock, and impede the sale of the common stock in the secondary market.

The increasing costs of being a public company may strain our resources and impact our business, financial condition and results of operations.

As a public company, we are subject to reporting requirements of the Securities Exchange Act of 1934, as amended or the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes Oxley Act and the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal controls for financial reporting. We are required to document and test our internal control procedures in order to satisfy the requirements of Section 404(b) of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal controls over financial reporting. The Dodd-Frank Act requires us to audit our supply chain and report conflict minerals usage.

These requirements may place a strain on our systems and resources in the future and may require us to hire additional accounting and financial staff with the appropriate public company experience and technical accounting knowledge. In addition, the failure to maintain such internal controls could result in us being unable to provide timely and reliable financial information which could potentially subject us to sanctions or investigations by the Securities and Exchange Commission or events could have an adverse effect on our business, financial condition or results of operations. Although we have taken steps to maintain our internal control structure as required by the Exchange Act and the Sarbanes-Oxley Act, we cannot provide any assurances that control deficiencies will not occur in the future.

Our Articles of Incorporation authorize us to issue additional shares of stock.

We are authorized to issue up to 15,000,000 shares of common stock, which may be issued by our board of directors for such consideration, as they may consider sufficient without seeking shareholder approval. As of December 31, 2015, we had 4,016,508 shares outstanding and 325,621 shares underlying options that are currently exercisable resulting in 10,657,871 shares of common stock available for issue. The issuance of additional shares of common stock in the future may reduce the proportionate ownership and voting power of current shareholders.

Our Articles of Incorporation authorize us to issue up to 260,000 shares of preferred stock. The issuance of preferred stock in the future could create additional securities which would have dividend and liquidation preferences prior to the outstanding shares of common stock. These provisions could also impede a non-negotiated change in control. As of December 31, 2015, we had 24,152 shares of Series B Preferred Stock issued and outstanding.

We have not paid dividends on our common stock in the past and do not expect to do so in the future.

We have never declared or paid cash dividends on our shares of common stock and do not expect to do so in the foreseeable future. We intend to retain future earnings for use in the business. As a result, investors must rely on sales of the common stock after price appreciation, which may not occur, as the only way to realize future gains on their investments.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

Our office and manufacturing facilities are located at 2839 Charter Street, Columbus, Ohio, where we occupy approximately 32,000 square feet. We moved our operations into this facility in 2004. During 2014 we renewed the lease on the property which expires on November 30, 2024.

We are current on all operating lease liabilities.

ITEM 3. LEGAL PROCEEDINGS.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market for Common Stock

Our stock began trading on the OTC Markets' OTCQX Market Tier under the symbol "SCIA" effective January 28, 2015. We upgraded from the OTC Markets' OTCQB Market Tier. We believe the OTCQX will provide investors transparent and convenient access to news and financial disclosure while providing long-term shareholder value.

The following table sets forth for the periods indicated the high and low bid quotations for our common stock.

	High	Low
Fiscal 2014		
Quarter Ended March 31, 2014	$ 3.50	$ 0.86
Quarter Ended June 30, 2014	1.25	1.00
Quarter Ended September 30, 2014	1.20	0.88
Quarter Ended December 31, 2014	1.46	0.84
Fiscal 2015		
Quarter Ended March 31, 2015	$ 1.20	$ 0.85
Quarter Ended June 30, 2015	1.32	1.05
Quarter Ended September 30, 2015	1.25	0.92
Quarter Ended December 31, 2015	1.15	0.86

The quotations provided herein may reflect inter-dealer prices without retail mark-up, markdown, or commissions, and may not represent actual transactions.

Based on its trading price, our common stock is considered a "penny stock" for purposes of federal securities laws, and therefore has been subject to certain regulations, which are summarized below.

Our common stock is classified as a penny stock and as such, broker dealers trading our common stock will be subject to the disclosure rules for transactions involving penny stocks, which require the broker dealer to determine if purchasing our common stock is suitable for a particular investor. The broker dealer must also obtain the written consent of purchasers to purchase our common stock. The broker dealer must also disclose the best bid and offer prices available for our stock and the price at which the broker dealer last purchased or sold our common stock. These additional burdens imposed on broker dealers may discourage them from effecting transactions in our common stock, which could make it difficult for an investor to sell their shares.

Holders of Record

As of December 31, 2015, there were approximately 270 holders of record of our common stock and 4,016,508 shares outstanding. At December 31, 2015 there were approximately 40 holders of Series B Preferred stock and 24,152 shares outstanding.

Dividends

We have never paid cash dividends on our common stock and do not expect to pay any dividends on our common stock in the foreseeable future. We intend to retain future earnings for use in the business.

Equity Compensation Plan Information

The following table sets forth additional information as of December 31, 2015, concerning shares of our common stock that may be issued upon the exercise of options and rights under our existing equity compensation plans and arrangements approved by our shareholders. The information includes the number of shares covered by and the weighted average exercise price of, outstanding options and other rights, and the number of shares remaining available for future grants (excluding the shares to be issued upon exercise of outstanding options and other rights).

	Number of Securities to be issued upon exercise of outstanding options and rights ***(a)***	**Weighted-average exercise price of outstanding options and rights** ***(b)***	**Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a))** **(c)**
Equity compensation plans approved by security holders	572,857	$ 4.27	277,143

Equity compensation plans approved by shareholders include our 2011 Stock Option Plan and 2006 Stock Option Plan.

ITEM 6. SELECTED FINANCIAL DATA.

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Executive Summary

Gross profit was $2,098,534 for the year ended December 31, 2015 compared to $1,849,118 for 2014. This was an increase of $249,416, or 13.5%. Gross profit increased due to increased volume in our thin film solar market and overall product mix. Total revenue decreased $1,206,468 during 2015 versus 2014 which was attributed to reductions on price and volume of a low margin commodity.

Operating expenses were $2,190,435 and $1,999,931 during 2015 and 2014, respectively. This was an increase of $190,504, or 9.5%. Included in this increase was higher research and development expense of $131,584 which represented 69.1% of the operating expense increase. We continue to invest in developing new products for all of our markets including transparent conductive oxide systems within the thin film solar industry. We also have ongoing development efforts with our thin film battery materials and transparent electronic products. These efforts include accelerating time to market for those products and involve ongoing research & development expense.

Several new customers are currently conducting extensive product testing and qualification activities. We are optimistic this will result in increased orders. Late in 2014 we received new orders from Asia for approximately $400,000 of Transparent Conductive Oxide materials. The revenue was recognized during the first quarter of 2015. Subsequently, early in 2015, follow-on orders were received for more than $500,000 of the same materials. The revenue was recognized during the second and third quarters of 2015. Early in January 2016 we received a new order from another customer in Asia for over $460,000. These targets are expected to ship during 2016 and 2017. Our strategy implemented a few years ago to add manufacturing capacity and marketing support for thin film solar applications is beginning to show progress but orders may be cyclical for a few quarters as these customers bring their production on stream and begin selling their capacity.

Cash remained stable during 2015. As of December 31, 2015, cash on-hand was $997,170 compared to $1,011,956 at December 31, 2014. Net cash provided by operating activities was approximately $503,000 during 2015 compared to approximately $792,000 during 2014.

Results of Operations

Year 2015 As Compared to Year 2014

Revenue

We had total revenue of $8,048,635 during 2015 compared to $9,255,103 during 2014. This was a decrease of $1,206,468, or 13.0%. Total revenue decreased due to reduced price and volume of a low margin commodity material. Sales of this material has been inconsistent from year to year. Revenue in our thin film solar market grew approximately $1,000,000 due to increased volume from customer demand.

Revenue from product sales is recognized based on the shipping terms upon shipment to customers. Provisions for discounts and rework costs for returns are established when products are shipped based on historical experience. Customer deposits represent cash received in advance of revenue earned.

Revenue from contract research provided for third parties is recognized on the percentage of completion method. Contract research revenue is recognized during the period qualifying expenses are incurred for the research that is performed as set forth under the terms of the grant award agreements.

Gross Profit

Gross profit was $2,098,534 during 2015 compared to $1,849,118 during 2014. This was an increase of $249,416, or 13.5%. Gross profit increased due to increased volume in our thin film solar market and overall product mix despite a decrease in revenue due to reduced price and volume of a commodity material.

Gross profit was 26.1% of total revenue in 2015 compared to 20.0% in 2014.

General and Administrative Expense

General and administrative expense for the year ended December 31, 2015 increased to $1,298,283 from $1,191,982 for the year ended December 31, 2014, or 8.9%. General and administrative expense during 2015 included higher travel expenses of approximately $37,000, non-cash stock based compensation expense of approximately $37,000 and compensation of approximately $26,000.

Professional Fees

Included in general and administrative expense was $197,699 and $205,112 for professional fees for the years ended December 31, 2015 and 2014, respectively. These expenses were primarily related to SEC compliance costs for legal, accounting and stockholder relations' fees.

Research and Development Expense

Research and development expense for 2015 was $438,667 compared to $307,083 for 2014, an increase of 42.8%. The increase is primarily due to higher sponsored research expense of approximately $63,000 which begun late in 2014. We have a collaborative program with a university to evaluate our TCO materials in liquid crystal display applications. We review intangible assets for impairment whenever impairment indicators are present and, if necessary, an impairment loss is recorded for the excess of carrying value over fair value. As a result of this review, we recorded a non-cash patent impairment charge of approximately $8,000 during 2015.

We continue to invest in developing new products for all of our markets including transparent conductive oxide systems within the thin film solar industry. We also have ongoing development efforts with our thin film battery materials and transparent electronic products. These efforts include accelerating time to market for those products and involve ongoing research & development expense. Late in the second quarter of 2015 we hired a Product Development Engineer for our research team to focus on display applications. She has experience in display manufacturing as well as post-doctoral experience at two universities recognized for their expertise in display applications. The added direct expense will be partially offset by lower expenses from our university partner.

Marketing and Sales Expense

Marketing and sales expense for the year ended December 31, 2015 decreased 9.5% to $453,485 from $500,866 for the year ended December 31, 2014. The decrease was primarily related to lower compensation expense of approximately $90,000 and travel expense of approximately $54,000, partially offset by higher sales consultant and commission fees of approximately $100,000.

Stock Compensation Expense

Included in operating expenses were non cash stock based compensation costs of $214,057 and $172,673 for the years ended December 31, 2015 and 2014, respectively. The increase was the result of new directors that joined the Company during 2014 and an increase in the number of shares granted in 2015. Compensation cost for all stock-based awards is based on the grant date fair value and recognized over the required service (vesting) period. Unrecognized non cash stock based compensation expense related to operating expense was $350,404 as of December 31, 2015 to be recognized through 2019.

Interest

Interest was $56,698 and $66,933 for the years ended December 31, 2015 and 2014, respectively. The decrease was due to continued payments reducing principal balances.

Loss Applicable to Common Stock

Loss applicable to common stock was $173,449 for the year ended December 31, 2015 compared to a loss of $244,076 for the year ended December 31, 2014. The higher gross profit in 2015 primarily contributed to the improvement. We had $215,988 and $172,995 in non-cash stock compensation expenses during 2015 and 2014, respectively. These charges had a material effect on our Statement of Operations.

Common Stock

The following schedule represents our outstanding common stock during the period of 2016 through 2024 assuming all outstanding stock options are exercised during the year of expiration. Based on outstanding shares at December 31, 2015, if each option holder exercises his or her options, it would increase our common shares by 572,857 to 4,589,365 by December 31, 2024. Assuming all such options are exercised in the year of expiration, the effect on shares outstanding is illustrated as follows:

Year	Options due to expire	Potential shares outstanding	Weighted Average Exercise Price
2016	31,000	4,047,508	$ 3.25
2018	5,000	4,052,508	$ 3.10
2019	364,500	4,417,008	$ 6.00
2024	172,357	4,589,365	$ 0.84

Liquidity and Capital Resources

Cash

As of December 31, 2015, cash on-hand was $997,170. Cash was $1,011,956 at December 31, 2014. Cash flow from operations was approximately $503,000 for the year ended December 31, 2015. We believe, based on forecasted sales and expenses, that cash flow from operations will be adequate to sustain operations at least through December 31, 2016.

Working Capital

At December 31, 2015 working capital was $1,010,517 compared to $889,649 at December 31, 2014, an increase of $120,868 or 13.6% from year end 2014. Cash decreased approximately $15,000 during the year ended December 31, 2015. Accounts receivable decreased approximately $166,000 and accounts payable decreased approximately $233,000. Inventories and customer deposits decreased approximately $1,100,000 due to orders shipped during 2015 as well as higher customer inventory levels late in 2015 versus late in 2014. Current capital lease obligations decreased by approximately $22,000 during 2015, while current notes payable decreased by approximately $91,000 due to a note's final payment in 2015.

Cash from Operations

Net cash provided by operating activities was approximately $503,000 and $792,000 for the years ended December 31, 2015 and 2014, respectively. In addition to the changes in various current assets and liabilities mentioned above, non-cash expenses for depreciation, accretion and amortization decreased to approximately $448,000 during 2015 from $515,000 during 2014, a decrease of approximately 13.0%. Included in expenses were non cash stock based compensation costs of $215,988 and $172,995, for the years ended December 31, 2015 and 2014, respectively.

Cash from Investing Activities

Cash of approximately $49,000 and $58,000 was used for investing activities during the years ended December 31, 2015 and 2014 respectively.

Cash from Financing Activities

Cash of approximately $444,000 was used in financing activities for principal payments to third parties for capital lease obligations and notes payable during 2015. We paid $24,152 for cumulative dividends on preferred stock during 2015. Cash of approximately $345,000 was used in financing activities for the year ended December 31, 2014. Principal payments to third parties for capital lease obligations and notes payable approximated $396,000 during 2014 and proceeds from sale of common stock were $50,400. We incurred new capital lease obligations of approximately $396,000 during 2014.

Debt Outstanding

Total debt outstanding decreased during 2015 from approximately $1,394,000 to approximately $950,000, or 32%.

Liquidity

We have forecasted revenues and related costs as well as investing plans and financing needs to determine liquidity to meet cash flow requirements and believe we will have sufficient liquidity at least through December 31, 2016. This forecast was based on current cash levels and debt obligations, and our best estimates of revenues primarily from existing customers and gave consideration to the continued and possible increased levels of uncertainty in demand in the markets in which we operate. Our ability to maintain current operations is dependent upon our ability to achieve these forecasted results, which we believe will occur.

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 the Annual Report on Form 10-K for the year ended December 31, 2015 describes the significant accounting policies and methods used in the preparation of the Financial Statements. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, inventory allowances, property and equipment depreciable lives, patents and license useful lives, revenue recognition, tax valuation allowance, 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 the accounts receivable. If there is a deterioration of a major customer's credit worthiness 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 profit could be adversely affected. 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 provide benefit. Changes in circumstances related to a change in our business, change in technology or other factors could result in these assets becoming impaired, which could adversely affect the value of these assets.

Inflation

We believe there has not been a significant impact from inflation on our operations during the past three fiscal years.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

This document contains forward-looking statements that reflect the views of management with respect to future events and financial performance. These forward-looking statements are subject to certain uncertainties and other factors that could cause actual results to differ materially from such statements. See "Risk Factors" above. These uncertainties and other factors include, but are not limited to, the words "anticipates," "believes," "estimates," "expects," "plans," "projects," "targets" and similar expressions which identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date the statements were made. We undertake no obligation to publicly update or revise any forward-looking statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our balance sheets as of December 31, 2015 and 2014, and the related statements of operations, shareholders' equity and cash flows for the years ended December 31, 2015 and 2014, together with the Report of Independent Registered Public Accounting Firm thereon appear beginning on Page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of the Company's Principal Executive Officer and Principal Accounting 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 operated, can only provide reasonable assurance of achieving the desired control objectives and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Due to a segregation of duties material weakness described below, and based on this evaluation, the Company's Principal Executive Officer and Principal Accounting Officer have concluded that as of December 31, 2015, the Company's disclosure controls and procedures were not effective, at the reasonable assurance level, in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act and in ensuring 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 Principal Executive Officer and Principal Accounting Officer, as appropriate to allow timely discussions regarding required disclosure. Until we are able to hire additional employees, we will continue to report to the Audit Committee and the Board of Directors at least monthly (and more often as necessary). We believe this will continue to mitigate this weakness. This reporting includes balance sheets, statements of operations, statements of cash flows, and other detail supporting these statements. Accordingly, we believe that the financial statements included in this report fairly present, in all material respects, our financial condition, results of operations, changes in shareholder's equity and cash flows for all periods presented.

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 the financial statements.

Management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in the Internal Control – Integrated Framework (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management has concluded that our internal control over financial reporting was not effective as of December 31, 2015. The matter involving internal controls over financial reporting that management considered to be a material weakness under the standards of the Public Company Accounting Oversight Board (PCAOB) was insufficient segregation of duties consistent with control objectives. Management is aware of the risks associated with the lack of segregation of duties due to the small number of employees currently working with general administrative and financial matters. Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, the initiation of transactions, the custody of assets and the recording of transactions should be performed by separate individuals.

In order to remediate this weakness, we will need to hire additional employees. Although we will periodically reevaluate this situation, at this point we consider that the risks associated with such lack of segregation of duties and the potential benefits of adding employees to segregate such duties are not cost justified. Until we are able to hire additional employees, we will continue to report to the Audit Committee and the Board of Directors at least monthly (and more often as necessary). We believe this will continue to mitigate this weakness. This reporting includes balance sheets, statements of operations, statements of cash flows, and other detail supporting these statements.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Our report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permits us to provide only management’s report in this annual report.

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f) and Rule 15d-15(f)) that occurred in the last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this item is included under the captions, “**Election of Directors**,” “**Executive Officers**” and “**Section 16(a) Beneficial Ownership Reporting Compliance**” in our proxy statement relating to our 2016 Annual Meeting of Shareholders scheduled to be held on June 9, 2016, and is incorporated herein by reference.

We have a Business Conduct Policy applicable to all employees of SCI. Additionally, the Chief Executive Officer ("CEO") and all senior financial officers, including the principal financial officer, the principal accounting officer or controller, or any person performing a similar function (collectively, the "Senior Financial Officers") are bound by the provisions of our code of ethics relating to ethical conduct, conflicts of interest, and compliance with the law. The code of ethics is posted on our website at http://www.sciengineeredmaterials.com/investors /main/corpgov.htm.

We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding any amendment to, waiver of, any provision of this code of ethics by posting such information on our website at the address and location specified above.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is included under the caption "**Executive Compensation**" in our proxy statement relating to our 2016 Annual Meeting of Shareholders scheduled to be held on June 9, 2016, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this item is included under the captions "**Ownership of Common Stock by Directors and Executive Officers"** and "**Ownership of Common Stock by Principal Shareholders**" in our proxy statement relating to our 2016 Annual Meeting of Shareholders scheduled to be held on June 9, 2016, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this item is included under the caption "**Certain Relationships and Related Transactions, and Director Independence**" in our proxy statement relating to our 2016 Annual Meeting of Shareholders scheduled to be held on June 9, 2016, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this item is included under the caption "**Fees of the Independent Public Accounting Firms for the year ended December 31, 2015"** in our proxy statement relating to our 2016 Annual Meeting of Shareholders scheduled to be held on June 9, 2016, and is incorporated herein by reference.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

Exhibit Number	Exhibit Description
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 June 10, 2011, filed April 28, 2011).
4(b)	Superconductive Components, Inc. 2006 Stock Incentive Plan (Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement for the 2006 Annual Meeting of Shareholders held on June 9, 2006, filed May 1, 2006).
4(c)	Description of the Material Terms of the Stock Option Grant and Cash Bonus Plan for Executive Officers (Incorporated by reference to the Company's Current Report on Form 8-K, dated June 19, 2006, filed June 23, 2006)

4(d)	Form of Incentive Stock Option Agreement under the Superconductive Components, Inc. 2006 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 19, 2006, filed June 23, 2006).
4(e)	Form of Non-Statutory Stock Option Agreement under the Superconductive Components, Inc. 2006 Stock Incentive Plan (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated June 19, 2006, filed June 23, 2006).
4(f)	Description of the Material Terms of the Stock Option Grant for Executive Officers and Board of Directors (Incorporated by reference to the Company's Current Report on Form 8-K dated January 2, 2009, filed January 6, 2009).
10(a)	Employment Agreement entered into as of February 26, 2002, between Daniel Rooney and the Company (Incorporated by reference to Exhibit 10(a) to the Company's Registration Statement on Form SB-2 (Registration No. 333-131605), filed on February 6, 2006, and amended by Pre-effective Amendment No. 1 filed March 23, 2006)
10(b)	Business Loan Agreement between the Company and The Huntington National Bank, dated as of January 13, 2009 (Incorporated by reference to the Company's Current Report on Form 8-K, filed January 23, 2009).
10(c)	Description of amendment to the Loan Agreement between the Company and The Ohio Air Quality Development Authority (Incorporated by reference to the Company's Current Report on Form 8-K, dated March 26, 2012).
10(d)	Description of amendment to the Loan Agreement between the Company and the Ohio Department of Development (Incorporated by reference to the Company's Current Report on Form 8-K, dated April 9, 2012).
10(e)	Description of amendment to the Loan Agreement between the Company and The Ohio Air Quality Development Authority (Incorporated by reference to the Company's Current Report on Form 8-K, filed July 10, 2012).
10(f)	Description of resolution to the Loan Agreement between the Company and The Ohio Air Quality Development Authority (Incorporated by reference to the Company's Current Report on Form 8-K, filed October 19, 2012).
10(g)	Description of Business Loan Agreement between the Company and The Huntington National Bank, dated as of October 15, 2012 (Incorporated by reference to the Company's Current Report on Form 8-K, filed October 19, 2012).
10(h)	Description of amendment to the Loan Agreement between the Company and the Ohio Development Services Agency, formerly known as the Department of Development (Incorporated by reference to the Company's Current Report on Form 10-K, dated March 19, 2013).
10(i)	Description of modification to payment schedules between the Company and the Ohio Development Services Agency, formerly known as the Ohio Department of Development and Description of Business Loan Agreement between the Company and The Huntington National Bank dated as of October 8, 2013 (Incorporated by reference to the Company's Current Report on Form 8-K, dated August 12, 2013).

10(j)		Description of amendment to Loan Documents between the Company and the Ohio Air Quality Development Authority dated as of December 20, 2013 (Incorporated by reference to the Company's Current Report on Form 8-K, dated December 26, 2013).
10(k)		Description of amendment to the Loan Agreement between the Company and the Ohio Development Services Agency, formerly known as the Ohio Department of Development (Incorporated by reference to the Company's Current Report on Form 8-K, dated July 24, 2014).
10(l)		Description of notice of transfer of common stock (Incorporated by reference to the Company's Current Report on Form 8-K, dated January 28, 2015).
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)
23	*	Consent of Independent Registered Public Accounting Firm
24	*	Powers of Attorney.
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 February 9, 2016, entitled "SCI Engineered Materials, Inc., Reports 2015 Fourth Quarter and Full-Year Results."
101		The Company's Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2015 and December 31, 2014 (ii) Consolidated Statements of Operations for the year ended December 31 2015 and 2014, (iii) Consolidated Statement of Changes in Equity for the years ended December 31, 2015 and December 2014, (iv) Consolidated Statements of Cash Flows for the year ended December 31, 2015 and 2014, and (v) Notes to Financial Statements.

* Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

SCI ENGINEERED MATERIALS, INC.

Date: February 9, 2016

By: /s/ Daniel Rooney
Daniel Rooney, Chairman of the Board of Directors, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 9th day of February 2016.

Signature	*Title*
/s/ Daniel Rooney	Chairman of the Board of Directors, 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)
Laura F. Shunk* Laura F. Shunk	Director
Edward W. Ungar* Edward W. Ungar	Director
Robert H. Peitz* Robert H. Peitz	Director
Emily Lu* Emily Lu	Director

*By: /s/ Daniel Rooney
Daniel Rooney, Attorney-in-Fact

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
SCI Engineered Materials, Inc.
Columbus, Ohio

We have audited the accompanying balance sheets of SCI Engineered Materials, Inc. (the "Company") as of December 31, 2015 and 2014 and the related statements of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

GBQ Partners LLC

Columbus, Ohio
February 9, 2016

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SCI ENGINEERED MATERIALS, INC.

BALANCE SHEETS

DECEMBER 31, 2015 AND 2014

ASSETS

	2015	2014
Current Assets		
Cash	$ 997,170	$ 1,011,956
Accounts receivable		
Trade, less allowance for doubtful accounts of $26,000 and $15,000, respectively	299,871	457,642
Other	2,641	10,710
Inventories	573,114	1,678,609
Prepaid expenses	70,740	89,467
Total current assets	1,943,536	3,248,384
Property and Equipment, at cost		
Machinery and equipment	7,506,574	7,478,909
Furniture and fixtures	154,245	139,110
Leasehold improvements	329,904	326,745
Construction in progress	-	1,815
	7,990,723	7,946,579
Less accumulated depreciation and amortization	(5,642,619)	(5,205,675)
	2,348,104	2,740,904
Other Assets		
Deposits	16,487	18,532
Deferred financing fees	10,226	19,665
Intangibles	34,935	9,229
Total other assets	61,648	47,426
TOTAL ASSETS	$ 4,353,288	$ 6,036,714

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

SCI ENGINEERED MATERIALS, INC.

BALANCE SHEETS (continued)

DECEMBER 31, 2015 AND 2014

LIABILITIES AND SHAREHOLDERS' EQUITY

	2015	2014
Current Liabilities		
Capital lease obligations, current portion	$ 123,960	$ 145,896
Notes payable, current portion	206,767	298,209
Accounts payable	191,475	424,539
Customer deposits	155,800	1,281,573
Accrued compensation	114,900	93,392
Accrued expenses and other	140,117	115,126
Total current liabilities	933,019	2,358,735
Capital lease obligations, net of current portion	215,231	339,191
Notes payable, net of current portion	403,739	610,568
Total liabilities	1,551,989	3,308,494
Commitments and contingencies		
Shareholders' Equity		
Convertible preferred stock, Series B, 10% cumulative, nonvoting, no par value, $10 stated value, optional redemption at 103%; optional shareholder conversion 2 shares for 1; 24,152 shares issued and outstanding	466,134	466,134
Common stock, no par value, authorized 15,000,000 shares; 4,016,508 and 3,935,398 shares issued and outstanding, respectively	9,993,027	9,907,990
Additional paid-in capital	2,097,599	1,960,260
Accumulated deficit	(9,755,461)	(9,606,164)
Total shareholders' equity	2,801,299	2,728,220
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 4,353,288	$ 6,036,714

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

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Total revenue	$ 8,048,635	$ 9,255,103
Total cost of revenue	5,950,101	7,405,985
Gross profit	2,098,534	1,849,118
General and administrative expense	1,298,283	1,191,982
Research and development expense	438,667	307,083
Marketing and sales expense	453,485	500,866
Loss from operations	(91,901)	(150,813)
Interest, net	(56,698)	(66,933)
Loss on disposal of equipment	(698)	(2,709)
Other expense	(57,396)	(69,642)
Loss before income taxes	(149,297)	(220,455)
Income tax benefit	-	531
Net loss	(149,297)	(219,924)
Dividends on preferred stock	(24,152)	(24,152)
LOSS APPLICABLE TO COMMON STOCK	$ (173,449)	$ (244,076)
Earnings per share - basic and diluted (Note 6)		
Loss per common share		
Basic	$ (0.04)	$ (0.06)
Diluted	$ (0.04)	$ (0.06)
Weighted average shares outstanding		
Basic	3,980,670	3,873,986
Diluted	3,980,670	3,873,986

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

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2015 AND 2014

	Convertible Preferred Stock, Series B	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total
Balance 1/1/14	$ 441,982	$ 9,833,620	$ 1,835,387	$ (9,386,240)	$ 2,724,749
Accretion of cumulative dividends	24,152	-	(24,152)	-	-
Stock based compensation expense (Note 2J)	-	-	149,025	-	149,025
Common stock issued (Note 6)	-	74,370	-	-	74,370
Net loss	-	-	-	(219,924)	(219,924)
Balance 12/31/14	$ 466,134	$ 9,907,990	$ 1,960,260	$ (9,606,164)	$ 2,728,220
Accretion of cumulative dividends	24,152	-	(24,152)	-	-
Stock based compensation expense (Note 2J)	-	-	161,491	-	161,491
Payment of cumulative dividends (Note 6)	(24,152)	-	-	-	(24,152)
Common stock issued (Note 6)	-	85,037	-	-	85,037
Net loss	-	-	-	(149,297)	(149,297)
Balance 12/31/15	$ 466,134	$ 9,993,027	$ 2,097,599	$ (9,755,461)	$ 2,801,299

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

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (149,297)	$ (219,924)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and accretion	446,254	512,968
Amortization	1,372	1,830
Stock based compensation	215,988	172,995
Loss on disposal of equipment	698	2,709
Patent impairment	7,857	-
Inventory reserve	(136,156)	56,563
Change in allowance for doubtful accounts	11,318	-
Changes in operating assets and liabilities:		
Accounts receivable	154,522	165,725
Inventories	1,241,650	(25,433)
Prepaid expenses	18,727	(33,169)
Other assets	7,088	6,552
Accounts payable	(233,063)	(31,572)
Accrued expenses and customer deposits	(1,084,374)	182,750
Net cash provided by operating activities	502,584	791,994
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of equipment	-	1,750
Purchases of property and equipment	(49,051)	(59,399)
Net cash used in investing activities	(49,051)	(57,649)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common stock	-	50,400
Principal payments on capital lease obligations and notes payable	(444,167)	(395,516)
Payment of cumulative dividends on preferred stock	(24,152)	-
Net cash used in financing activities	(468,319)	(345,116)
NET (DECREASE) INCREASE IN CASH	$ (14,786)	$ 389,229
CASH - Beginning of year	1,011,956	622,727
CASH - End of year	$ 997,170	$ 1,011,956
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 58,203	$ 67,869
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment purchased by capital lease	$ -	$ 396,165
Provisional patent acquired by common stock exchange	30,540	-
Increase in asset retirement obligation	5,100	10,200

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

Note 1. Business Organization and Purpose

SCI Engineered Materials, Inc. (“SCI”, “we” or the “Company”), formerly Superconductive Components, Inc., 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 specific markets within the PVD industry (Photonics, Thin Film Solar, Glass, Thin Film Battery and Transparent Electronics). Substantially, all of the Company’s revenues were generated from customers with multi-national operations. Through partnerships with end users and Original Equipment Manufacturers the Company develops innovative customized solutions enabling commercial success.

Note 2. Summary of Significant Accounting Policies

A. Cash - The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash.

B. Fair Value of Financial Instruments - The estimated fair value of amounts reported in the financial statements have been determined using available market information and valuation methodologies, as applicable (see Note 9).

C. Concentrations of Credit Risk - The Company’s cash balances, which are at times in excess of federally insured levels, are maintained at a large regional bank and a global investment banking group, and are continually monitored to minimize the risk of loss. The Company grants credit to most customers, who are varied in terms of size, geographic location and financial strength. Customer balances are continually monitored to minimize the risk of loss.

The Company’s two largest customers accounted for 65% and 11% of total revenue in 2015. These two customers represented 40% of the accounts receivable trade balance at December 31, 2015. The Company expects to collect all outstanding accounts receivables as of December 31, 2015 from these customers.

The Company’s two largest customers accounted for 47% and 32% of total revenue in 2014. These two customers represented 42% of the accounts receivable trade balance at December 31, 2014. The Company subsequently collected all outstanding accounts receivables as of December 31, 2014 from these customers.

D. Accounts Receivable - The Company extends unsecured credit to customers under normal trade agreements which require payment within 30 days. The Company does not charge interest on delinquent trade accounts receivable. Unless specified by the customer, payments are applied to the oldest unpaid invoice. Accounts receivable are presented at the amount billed.

Management estimates an allowance for doubtful accounts, which was approximately $26,000 and $15,000 as of December 31, 2015 and 2014, respectively. This estimate is based upon management’s review of delinquent accounts and an assessment of the Company’s historical evidence of collections. Specific accounts are charged directly to the reserve or bad debt expense when management obtains evidence of a customer’s insolvency or otherwise determines that the account is uncollectible. Bad debt expense was $11,318 and $17,256 during 2015 and 2014, respectively.

Note 2. Summary of Significant Accounting Policies (continued)

E. Inventories - Inventories are stated at the lower of cost or market on an acquired or internally produced lot basis, and consist of raw materials, work-in-process and finished goods. Cost includes material, labor, freight and applied overhead. Inventory reserves are established for obsolete inventory, lower of cost or market, and excess inventory quantities based on management's estimate of net realizable value. The Company had an inventory reserve of $55,270 at December 31, 2015, and $191,426 at December 31, 2014. During 2015 the Company removed certain slow moving inventory items recognizing a corresponding decrease in its inventory reserve and no net effect on total inventory.

F. Property and Equipment - Property and equipment are carried at cost. Depreciation is provided using the straight-line method based on the estimated useful lives of the assets. Useful lives range from three years on computer equipment to sixteen years on certain equipment. Leasehold improvements are amortized over the shorter of the estimated useful life or the term of the lease. Depreciation expense totaled $441,154 and $502,768 for the years ended December 31, 2015 and 2014, respectively. Expenditures for renewals and betterments are capitalized and expenditures for repairs and maintenance are charged to operations as incurred.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference. There was no property and equipment considered impaired during 2015 or 2014.

G. Deferred Financing Costs - Deferred financing costs are amortized over the term of the related debt using the straight-line method, the result of which is not materially different from the use of the interest method. Deferred financing costs were $19,665 and $29,104 at December 31, 2015 and 2014, respectively. The related amortization of these costs for the years ended December 31, 2015 and 2014 was $9,439 and is included in interest expense on the statements of operations.

H. Intangible Assets - The Company reviews intangible assets for impairment and performs detailed testing whenever impairment indicators are present. If necessary, an impairment loss is recorded for the excess of carrying value over fair value. As a result of this review, we recorded a non-cash patent impairment charge for the remaining book value for two patents of approximately $8,000 during 2015. There were no intangible assets considered impaired during 2014.

During the second quarter 2015, the Board of Directors approved the acquisition of rights to a provisional patent owned by one of the directors, and any subsequent patents for this technology related to the application of Zinc based Transparent Conductive Oxide in displays, and the value thereof for 30,000 shares of common stock of the Company. The value of the shares of common stock at the time of acquisition was $30,540.

Note 2. Summary of Significant Accounting Policies (continued)

Costs incurred to secure patents have been capitalized and amortized over the life of the patents. Cost and accumulated amortization of the patents at December 31, 2015 were $34,936 and $0, respectively. Cost and accumulated amortization of the patents at December 31, 2014 were $36,473 and $27,244 respectively. Amortization expense was approximately $1,372 and $1,830 for the years ended December 31, 2015 and 2014, respectively. Amortization expense is expected to be $0 until the provisional patent acquired during 2015 is approved.

I. Revenue Recognition - Revenue from product sales is recognized based on shipping terms and upon shipment to customers. Provisions for discounts and rework costs for returns are established when products are shipped based on historical experience. Customer deposits represent cash received in advance of revenue earned.

J. Stock Based Compensation - Compensation cost for all stock-based awards is based on the grant date fair value and is recognized over the required service (vesting) period. Non cash stock based compensation expense was $215,988 and $172,995 for the years ended December 31, 2015 and 2014, respectively. Non cash stock based compensation expense includes $54,497 and $23,970 for stock grants awarded to the non-employee board members during 2015 and 2014, respectively. Unrecognized compensation expense was $350,404 as of December 31, 2015 and will be recognized through 2019. There was no tax benefit recorded for this compensation cost as the expense primarily relates to incentive stock options that do not qualify for a tax deduction until, and only if, a qualifying disposition occurs.

K. Research and Development - Research and development costs are expensed as incurred. Research and development expense for the years ended December 31, 2015 and 2014 was $438,667 and $307,083, respectively. The Company continues to invest in developing new products for all of the Company's markets including transparent conductive oxide systems within the thin film solar industry. The Company also has ongoing development efforts with its thin film battery materials and transparent electronic products. These efforts include accelerating time to market for those products and involve ongoing research & development expense.

L. Income Taxes - Income taxes are provided for by utilizing the asset and liability method which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities using presently enacted tax rates. Deferred tax assets are reduced by a valuation allowance which is established when "it is more likely than not" that some portion or all of the deferred tax assets will not be recognized.

M. Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, inventory allowances, property and equipment depreciable lives, patents and

Note 2. Summary of Significant Accounting Policies (continued)

licenses useful lives, revenue recognition, tax valuation, stock based compensation and assessing changes in which impairment of certain long-lived assets may occur. Actual results could differ from those estimates.

N. New Accounting Pronouncements –

Revenue from Contracts with Customers – In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance creating Accounting Standards Codification (“ASC”) Section 606, *Revenue from Contracts with Customers*. The new section will replace Section 605, *Revenue Recognition*, and creates modifications to various other revenue accounting standards for specialized transactions and industries. The section is intended to conform revenue accounting principles to a concurrently issued International Financial Reporting Standards in order to reconcile previously differing treatment between United States practices and those of the rest of the world and enhance disclosures related to disaggregated revenue information. In August 2015, the FASB deferred the effective date of the new guidance by one year, such that the updated guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company will continue its study of the implications of this statement to evaluate the expected impact on its financial statements.

Simplifying the Presentation of Debt Issuance Costs – In April 2015, the FASB issued guidance creating ASC Subtopic 835-30, *Interest--Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs*. The update modifies the presentation of costs of debt issuance as a direct reduction to the face amount of the related reported debt. The updated guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years, with early adoption allowed. The Company is evaluating the impact of the standard on the financial statements.

Inventory Measurement – In July 2015, FASB issued ASU 2015-11, *Inventory (Topic 330) Related to Simplifying the Measurement of Inventory* which applies to all inventory except inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. Inventory measured using first-in, first-out (FIFO) or average cost is covered by the new amendments. Inventory within the scope of the new guidance should be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendments will take effect for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The new guidance should be applied prospectively, and earlier application is permitted as of the beginning of an interim or annual reporting period. The Company is evaluating the impact of the standard on the financial statements.

Note 3. **Inventories**

Inventories consist of the following at December 31:

	2015	2014
Raw materials	$ 202,617	$ 814,307
Work-in-process	366,114	842,760
Finished goods	59,653	212,968
	628,384	1,870,035
Reserve for obsolete inventory	(55,270)	(191,426)
	$ 573,114	$ 1,678,609

During 2015 the Company removed certain slow moving inventory items recognizing a corresponding decrease in its inventory reserve and no net effect on total inventory.

Note 4. **Notes Payable**

On August 8, 2013, the Company issued a Promissory Note (the "Note") in the amount of $128,257 to The Huntington National Bank, as Lender, with a maturity date of August 5, 2016. This Note replaced an existing promissory note to The Huntington National Bank.

The Note is collateralized by a blanket lien on all of the Company's assets including, without limitation, inventory, equipment and accounts receivable. Among other items, the Note provides for the following:

- Interest subject to change from time to time based on changes in LIBOR. The interest rate applied to the unpaid principal balance is at a rate of 4 percentage points over LIBOR. Under no circumstance will the interest rate be less than 5% per annum or more than the maximum rate allowed by applicable law.

- Monthly payments of approximately $3,800, including interest, beginning in September 2013.

The interest rate on the Note was 5% at December 31, 2015 and 2014. As of December 31, 2015 there was an outstanding balance of $30,283. The Company expects to maintain compliance with all covenants of this Note through the remainder of the Note.

Note 4. Notes Payable (continued)

During 2010, the Company applied and was approved for a 166 Direct Loan to borrow up to $744,250 with the Ohio Department of Development (ODOD), now known as the Ohio Development Services Agency (ODSA). This loan was finalized in February 2011. The term of the loan is 84 months at a fixed interest rate of 3%. There is also a 0.25% annual servicing fee charged monthly on the outstanding principal balance. On August 13, 2013, ODSA and the Company agreed to a modification to the payment schedule. Interest and servicing payments of $1,656 were paid monthly from August 2013 through January 2014. Beginning in February 2014, monthly payments of approximately $10,500, including principal, interest and servicing fee are due through October 2018. A final payment of approximately $71,900 is due November 2018. The loan is collateralized by the related project equipment. As of December 31, 2015 there was an outstanding balance of $402,914 on this loan. This loan is also subject to certain covenants, including job creation and retention. On July 21, 2014, the Company and ODSA signed a second amendment relating to the job creation and retention. The Company expects to maintain compliance with all covenants of this loan through at least December 31, 2016.

During 2010, the Company also applied and was approved for a 166 Direct Loan through the Advanced Energy Program with the Ohio Air Quality Development Authority (OAQDA) to borrow up to approximately $1.4 million (this maximum commitment by the OAQDA was subsequently reduced to $368,906 on March 20, 2012). On December 20, 2013, OAQDA and the Company signed a Fourth Amendment to the Loan Documents and agreed to a modification to the payment schedule. Interest and servicing payments of $2,121 were payable quarterly from October 2013 through March 2014. Beginning in June 2014, quarterly payments of approximately $17,300, including principal, interest at 3% and servicing fees are due through December 2017. A final payment of approximately $50,400 is due February 2018. This loan is also subject to certain covenants, including job creation. Included in the above amendment is a waiver for the job creation commitment, due to market conditions, for the duration of the term of the Loan Agreement. The Company expects to maintain compliance with all covenants of this loan at least through December 31, 2016. The loan is collateralized by the related project equipment. As of December 31, 2015 there was an outstanding balance of $177,309 on this loan.

An Intercreditor Agreement exists as part of the above mentioned loans with agencies of the State of Ohio. The OAQDA and ODSA agree to shared lien and security interest through mutual covenants. These covenants include, but are not limited to, the creation of an agreed upon number of jobs, filing of quarterly and annual reports and various financial covenants. The Company expects to maintain compliance with all covenants of these loans through at least December 31, 2016.

During 2015, the Company made a final payment and paid a 166 Direct Loan in full. During 2006, the Company was approved for this 166 Direct Loan from the Ohio Department of Development, now known as the ODSA, in the amount of $400,000. These funds were received in July of 2008 and were used for the purchase of production equipment and to reduce the Company's capital lease obligations on certain equipment. The term of the loan was 84 months at a fixed interest rate of 3%. There was also a 0.25% annual servicing fee charged monthly on the outstanding principal balance.

Note 4. Notes Payable (continued)

The loan was collateralized by the related project equipment. On August 8, 2013, ODSA and the Company agreed to a modification to the payment schedule. Interest and servicing payments of approximately $400 were paid monthly from August 2013 through January 2014. Beginning in February 2014, monthly payments of approximately $6,100, including principal, interest and servicing fee were paid through July 2015. A final payment of approximately $42,200 was paid in August 2015.

Notes payable at December 31 is included in the accompanying balance sheets as follows:

	2015	2014
Huntington National Bank	$ 30,283	$ 73,764
ODSA 166 Direct Loan	402,914	513,246
OAQDA 166 Direct Loan	177,309	238,256
ODSA 166 Direct Loan	-	83,511
Total notes payable	610,506	908,777
Less current portion	206,767	298,209
Notes payable, net of current portion	$ 403,739	$ 610,568

Annual maturities of notes payable, for the next five years, are as follows:

2016	$ 206,767
2017	181,847
2018	221,892
2019	-
2020	-

Note 5. Lease Obligations

<u>Operating</u>

The Company leases its facilities and certain office equipment under agreements classified as operating leases expiring at various dates through 2024. Rent expense, which includes various monthly rentals for the years ended December 31, 2015 and 2014 totaled $154,678 and $166,641, respectively. Future minimum lease payments at December 31, 2015 are as follows:

2016	$ 102,326
2017	104,292
2018	106,539
2019	107,410
2020 and beyond	548,200
Total minimum lease payments	$ 968,767

Note 5. Lease Obligations (continued)

Capital

The Company also leases certain equipment under capital leases. Future minimum lease payments, by year, with the present value of such payments, as of December 31, 2015 are shown in the following table.

2016	$ 138,466
2017	103,355
2018	86,122
2019	39,513
2020	-
Total minimum lease payments	367,456
Less amount representing interest	28,265
Present value of minimum lease payments	339,191
Less current portion	123,960
Capital lease obligations, net of current portion	$ 215,231

The equipment under capital lease at December 31 is included in the accompanying balance sheets as follows:

	2015	2014
Machinery and equipment	$ 667,504	$ 881,538
Less accumulated depreciation and amortization	164,260	258,035
Net book value	$ 503,244	$ 623,503

These assets are amortized over a period of ten years using the straight-line method and amortization is included in depreciation expense.

The capital leases are structured such that ownership of the leased asset reverts to the Company at the end of the lease term. Accordingly, leased assets are depreciated using the Company's normal depreciation methods and lives. In 2015, ownership of certain assets were transferred to the Company in accordance with the terms of the leases and these assets have been excluded from the leased asset disclosure above.

Note 6. Common and Preferred Stock

Common Stock

During 2015, the non-employee board members received compensation of 51,110 shares of common stock of the Company. The increased shares were the result of new directors that joined the Company during 2014 and an increase in number of shares granted on a quarterly basis in 2015. The stock had an aggregate value of $54,497 and was recorded as non-cash stock compensation expense in the financial statements.

During the second quarter 2015, the Board of Directors approved the acquisition of rights to a provisional patent owned by one of the directors, and any subsequent patents for this technology related to the application of Zinc based Transparent Conductive Oxide in displays, and the value thereof for 30,000 shares of common stock of the Company. The value of the shares of common stock at the time of acquisition was $30,540.

During 2014, the non-employee board members received 22,500 shares of common stock of the Company with an aggregate value of $23,970. This was recorded as non-cash stock compensation expense in the financial statements. Also during 2014, through a subscription agreement, a non-employee director purchased 60,000 shares of common stock of the Company with a value of $50,400.

Preferred Stock

Shares of preferred stock authorized and outstanding at December 31, 2015 and 2014 were as follows:

	Shares Authorized	Shares Outstanding
Cumulative Preferred Stock	10,000	-
Voting Preferred Stock	125,000	-
Cumulative Non-Voting Preferred Stock	125,000(a)	24,152

(a) Includes 700 shares of Series A Preferred Stock and 100,000 shares of Convertible Series B Preferred Stock authorized for issuance.

In January 1996, the Company completed an offering of 70,000 shares of $10 stated value 1995 Series B 10% cumulative non-voting convertible preferred stock. The shares are convertible to common shares at the rate of $5.00 per share. At the Company’s option, the Series B shares are redeemable at 103% of the stated value plus the amount of any accrued and unpaid cash dividends.

On December 9, 2015, the Board of Directors voted not to authorize the payment of a cash dividend on convertible preferred stock, Series B, to shareholders of record as of December 31, 2015. On December 10, 2014, the Board of Directors voted to authorize the payment of a cash dividend on convertible preferred stock, Series B, to shareholders of record as of December 31, 2014. The payment of approximately $24,000 was paid during June 2015.

Note 6. Common and Preferred Stock (continued)

The Company had accrued dividends of $217,368 at December 31, 2015 and 2014. These amounts were included in convertible preferred stock, Series B on the balance sheet at December 31, 2015 and 2014.

Earnings Per Share

Basic income (loss) per share is calculated as income available (loss attributable) to common shareholders divided by the weighted average of common shares outstanding. Diluted earnings per share is calculated as diluted income available (loss attributable) to common stockholders divided by the diluted weighted average number of common shares outstanding. Diluted weighted average number of common shares gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. Diluted earnings per share exclude all diluted potential shares if their effect is anti-dilutive. For the years ended December 31, 2015 and 2014, all convertible and preferred stock and common stock options listed in Note 7 were excluded from diluted earnings per share due to being out-of-the-money or anti-dilutive.

Following is a summary of employee and director outstanding stock options outstanding and preferred stock, Series B at December 31.

	2015	2014
Options	572,857	703,857
Preferred Stock, Series B	24,152	24,152
	597,009	728,009

The following is provided to reconcile the earnings per share calculations:

	2015	2014
Loss applicable to common stock	$ (173,449)	$ (244,076)
Weighted average common shares outstanding - basic	3,980,670	3,873,986
Effect of dilutions - stock options	-	-
Weighted average shares outstanding - diluted	3,980,670	3,873,986

Note 7. Stock Option Plans

On June 10, 2011, shareholders approved the SCI Engineered Materials, Inc. 2011 Stock Incentive Plan (the “2011 Plan”). The Company adopted the 2011 Plan as incentive to key employees, directors and consultants under which options to purchase up to 250,000 shares of the Company’s common stock may be granted, subject to the execution of stock option agreements. Incentive stock options may be granted to key employees of the Company and non-statutory options may be granted to directors who are not employees and to consultants and advisors who render services to the Company. Options may be exercised for periods up to 10 years from the date of grant at prices not less than 100% of fair market value on the date of grant. As of December 31, 2015 there were no stock options outstanding from the 2011 Plan.

Note 7. Stock Option Plans (continued)

On June 9, 2006, shareholders approved the Superconductive Components, Inc. 2006 Stock Incentive Plan. The Company adopted the 2006 Plan as incentive to key employees, directors and consultants under which options to purchase up to 600,000 shares of the Company's common stock may be granted, subject to the execution of stock option agreements. Incentive stock options may be granted to key employees of the Company and non-statutory options may be granted to directors who are not employees and to consultants and advisors who render services to the Company. Options may be exercised for periods up to 10 years from the date of grant at prices not less than 100% of fair market value on the date of grant. As of December 31, 2015 there were 572,857 stock options outstanding from the 2006 Plan which expire at various dates through November 2024.

The cumulative status at December 31, 2015 and 2014 of options granted and outstanding, as well as options which became exercisable in connection with the Stock Option Plans is summarized as follows:

Employee Stock Options

	Stock Options	Weighted Average Exercise Price	Weighted Average Contractual Term (yrs)	Aggregate Intrinsic Value
Outstanding at January 1, 2014	486,500	$ 5.20		
Granted	172,357	0.84		
Expired	(55,000)	2.78		
Outstanding at December 31, 2014	603,857	$ 4.18		
Forfeited	(1,000)	3.10		
Expired	(30,000)	2.40		
Outstanding at December 31, 2015	572,857	$ 4.27	4.6	$ -
Options exercisable at December 31, 2014	285,700	$ 5.26	3.3	$ -
Options exercisable at December 31, 2015	325,621	$ 5.15	3.4	$ -
Options expected to vest	247,236	$ 3.12	6.3	$ -

Note 7. Stock Option Plans (continued)

Non-Employee Director Stock Options

	Stock Options	Weighted Average Exercise Price	Weighted Average Contractual Term (yrs)	Aggregate Intrinsic Value
Outstanding at January 1, 2014	220,000	$ 4.26		
Expired	(120,000)	5.15		
Outstanding at December 31, 2014	100,000	$ 3.20		
Expired	(100,000)	3.20		
Outstanding at December 31, 2015	-	$ -	-	$ -
Options exercisable at December 31, 2014	100,000	$ 3.20	0.6	$ -

There were no options exercisable at December 31, 2015.

Information related to the weighted average fair value of nonvested stock options for the year ended December 31, 2015 is as follows:

	Stock Options	Average Exercise Price
Employee Stock Options		
Nonvested options at January 1, 2015	318,157	$ 3.20
Vested	(70,921)	3.49
Nonvested options at December 31, 2015	247,236	$ 3.12

Exercise prices range from $0.84 to $6.00 for options at December 31, 2015. The weighted average option price for all options outstanding was $4.27 with a weighted average remaining contractual life of 4.6 years at December 31, 2015. The weighted average option price for all options outstanding was $4.04 with a weighted average remaining contractual life of 4.7 years at December 31, 2014.

The weighted average fair value at date of grant for options granted during 2014 was $0.84, and was estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

Expected life in years	5.0
Interest rate	1.57%
Volatility	60.01%
Dividend yield	0%

Note 8. **Income Taxes**

Deferred tax assets and liabilities result from temporary differences in the recognition of income and expense for tax and financial reporting purposes. Significant components of the Company's deferred tax assets and liabilities are as follows at December 31.

	2015	2014
Deferred tax assets		
NOL carryforwards	$ 1,633,000	$ 1,505,000
General business credits carryforwards	198,000	186,000
Stock based compensation	80,000	80,000
UNICAP	41,000	79,000
Allowance for doubtful accounts	10,000	5,000
Reserve for obsolete inventories	20,000	69,000
Reserve for asset retirement	24,000	22,000
Property and equipment	(263,000)	(197,000)
	1,743,000	1,749,000
Valuation allowance	(1,743,000)	(1,749,000)
Net	$ -	$ -

A valuation allowance has been recorded against the realizability of the net deferred tax asset such that no value is recorded for the asset in the accompanying financial statements. The valuation allowance totaled $1,743,000 and $1,749,000 at December 31, 2015 and 2014, respectively.

The Company has net operating loss carryforwards available for federal and state tax purposes of approximately $4,700,000 and $4,300,000 at December 31, 2015 and 2014, respectively, which expire in varying amounts through 2035.

For the years ended December 31, 2015 and 2014, a reconciliation of the statutory rate and effective rate for the provisions for income taxes consists of the following:

	Percentage	
	2015	2014
Federal statutory rate	(35.0)%	(35.0)%
State/city tax	0.0	(0.3)
Non-deductible expense	38.4	24.2
Valuation allowance	(3.4)	11.3
Effective rate	0.0%	0.2%

Note 8. Income Taxes (continued)

Components of income taxes are as follows:

	2015	2014
Current	$ -	$ (531)
Deferred:		
NOL utilization/expiration	(128,000)	(129,000)
General business credits	(12,000)	13,000
Other temporary differences	146,000	54,000
Change in valuation allowance	(6,000)	62,000
Total	$ -	$ (531)

The Company follows guidance issued by the Financial Accounting Standards Board ("FASB ASC 740") with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is "more-likely-than-not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than fifty percent likely of being realized on examination. For tax positions not meeting the "more-likely-than-not" test, no tax benefit is recorded.

The Company has no unrecognized tax benefits under guidance related to tax uncertainties. The Company does not anticipate the unrecognized tax benefits will significantly change in the next twelve months. Any tax penalties or interest expense will be recognized in income tax expense. No interest and penalties related to unrecognized tax benefits were accrued at December 31, 2015 and 2014.

The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. The Company is open to federal and state tax audits until the applicable statute of limitations expire. There are currently no federal or state income tax examinations underway for the Company. The tax years 2012 through 2014 remain open to examination by the major taxing jurisdictions in which the Company operates.

Note 9. Fair Value of Financial Instruments

The fair value of financial instruments represents the price that would be received to sell an asset or paid to transfer a liability (an exit price), and not the price that would be paid to acquire an asset or received to assume a liability (an entry price). Significant differences can arise between the fair value and carrying amount of financial instruments that are recognized at historical cost amounts.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

- Cash and cash equivalents, short-term notes payable and capital lease obligations and current maturities of long-term notes payable and capital lease obligations: Amounts reported in the balance sheet approximate fair market value due to the short maturity of these instruments.

- Long-term note payable obligations: Amounts reported in the balance sheet approximate fair value as the interest rates on the obligations range from 3% to 7.5%, which approximates current fair market rates.

Note 10. Asset Retirement Obligation

Included in machinery and equipment is various production equipment, which per the Company's building lease, is required to be removed upon termination of the related lease. Included in accrued expenses in the accompanying balance sheet is the asset retirement obligation that represents the expected present value of the liability to remove this equipment. There are no assets that are legally restricted for purposes of settling this asset retirement obligation.

Following is a reconciliation of the aggregate retirement liability associated with the Company's obligation to dismantle and remove the machinery and equipment associated with its lease:

Balance at January 1, 2014	$	50,278
Increase in present value of the obligation (accretion expense in the corresponding amount charged against earnings)		10,200
Balance at December 31, 2014	$	60,478
Increase in present value of the obligation (accretion expense in the corresponding amount charged against earnings)		5,100
Balance at December 31, 2015	$	65,578

Note 11. Liquidity

Management has forecasted revenues and related costs as well as investing plans and financing needs to determine liquidity to meet cash flow requirements and believes the Company will have sufficient liquidity at least through December 31, 2016. This forecast was based on current cash levels and debt obligations, and the best estimates of revenues primarily from existing customers and gave consideration to the continued and possible increased levels of uncertainty in demand in the markets in which the Company operates. The Company's ability to maintain current operations is dependent upon its ability to achieve these forecasted results, which the Company believes will occur.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No.333-97583, No. 333-67212 and No. 333-136694 on Forms S-8 of SCI Engineered Materials, Inc. of our report dated February 9, 2016, relating to the financial statements, appearing in this Annual Report on Form 10-K.

GBQ Partners LLC

Columbus, Ohio
February 9, 2016

POWER OF ATTORNEY

Each of the undersigned officers and/or directors of SCI Engineered Materials, Inc., an Ohio corporation (the "Company"), hereby appoints Daniel Rooney and Michael A. Smith as his or her true and lawful attorneys-in-fact, or any of them individually with power to act without the other, as his or her true and lawful attorney-in-fact, in his or her name and on his or her behalf, and in any and all capacities stated below, to sign and to cause to be filed with the Securities and Exchange Commission the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, and any and all amendments thereto, hereby granting unto said attorneys, and to each of them, full power and authority to do and perform in the name and on behalf of the undersigned, in any and all such capacities, every act and thing whatsoever necessary to be done in and about the premises as fully as each of the undersigned could or might do in person, hereby granting to each such attorney full power of substitution and revocation, and hereby ratifying all that any such attorney or his substitute may do by virtue hereof.

IN WITNESS WHEREOF, the undersigned have executed this Power of Attorney in counterparts if necessary, effective as of February 9, 2016.

Signature	*Title*
/s/ Daniel Rooney Daniel Rooney	President, Chief Executive Officer and Chairman of the Board of Directors and Director (principal executive officer)
/s/ Gerald S. Blaskie_ Gerald S. Blaskie	Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)
/s/ Robert H. Peitz Robert H. Peitz	Director
/s/ Laura F. Shunk Laura F. Shunk	Director
/s/ Emily Lu Emily Lu	Director
/s/ Edward W. Ungar Edward W. Ungar	Director

Exhibit 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Daniel Rooney, certify that:

1. I have reviewed this annual report on Form 10-K 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, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2016

/s/ Daniel Rooney
Daniel Rooney
Chairman of the Board of Directors,
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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 annual report on Form 10-K 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, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2016

/s/ Gerald S. Blaskie
Gerald S. Blaskie
Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

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 Annual Report of SCI Engineered Materials, Inc. (the “Company”) on Form 10-K for the period ending December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Daniel Rooney, 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/ Daniel Rooney
Daniel Rooney
President and Chief Executive Officer of
SCI Engineered Materials, Inc.
February 9, 2016

Exhibit 32.2

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 Annual Report of SCI Engineered Materials, Inc. (the "Company") on Form 10-K for the period ending December 31, 2015 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.
February 9, 2016