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SCI Engineered Materials, Inc. Reports First Quarter 2013 Results

COLUMBUS, Ohio (May 13, 2013) SCI Engineered Materials, Inc. ("SCI") (SCIA: OTCQB), a global supplier and manufacturer of advanced materials for PVD thin film applications that works closely with end users and OEMs to develop innovative, customized solutions, today reported its financial results for the three months ended March 31, 2013.

Dan Rooney, Chairman, President and Chief Executive Officer, commented, "SCI is in its best position in more than a decade to benefit from recent investments to increase our manufacturing capabilities and strengthen the company's presence in multiple markets. However, an inventory adjustment by a major customer combined with ongoing volatility in the solar market contributed to a decrease in total revenue compared to the same period last year and a loss for the quarter. We are responding to these short-term challenges by tightly controlling operating expenses and maintaining close contact with our customers. Our business strategy is sound and we will continue to utilize our core strengths to pursue attractive long-term growth opportunities."

Total revenue

Total revenue was \$1,433,602 for the three months ended March 31, 2013, compared with \$1,883,032 for the same period last year. Contract research revenue of \$63,732 for the first quarter 2013 was similar to the same period last year.

Backlog was \$1.6 million at March 31, 2013 versus \$1.8 million at December 31, 2012 and \$2.9 million on the same date a year ago. Backlog was impacted by the timing of blanket orders placed by customers and lower backlog related to contract research compared to the same date in 2012.

Gross profit

First quarter 2013 gross profit declined to \$173,599 from \$315,145 a year ago due to lower revenue and increased pricing pressure. As a result, gross profit margin declined to 12.1% for the first quarter 2013 from 16.7% for the same period last year.

Operating expenses

Operating expenses, which include marketing and sales, general and administrative, and R&D, declined 5.3% to \$464,654 for the first quarter 2013. Lower R&D and marketing and sales expenses were partially offset by slightly higher general and administrative expense attributable to higher professional fees compared to a year ago.

Loss Applicable to Common Stock

Loss applicable to common stock was \$267,594, or \$0.07 per share, for the first quarter 2013 compared with loss applicable to common shares of \$195,801, or \$0.05 per share, for the same period last year. The year-over-year comparison was primarily impacted by the decline in gross profit versus the same period last year.

EBITDA

First quarter 2013 EBITDA (Earnings before interest, income taxes, depreciation and amortization) was negative \$89,953 compared with negative EBITDA of \$30,962 for the same period last year. Adjusted EBITDA, which excludes non-cash stock based compensation, was negative \$54,518 for the first quarter 2013 versus adjusted EBITDA of \$4,134 a year ago.

About SCI Engineered Materials, Inc.

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

This press release contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but are not limited to, all statements regarding intent, beliefs, expectations, projections, customer guidance, forecasts, and plans of the Company and its management, and specifically include statements concerning SCI being in the best position in more than a decade to benefit from recent investments to increase manufacturing capabilities and strengthen the company's presence in multiple markets, responding to the short-term challenges by tightly controlling operating expenses and maintaining close contact with customers, the business strategy is sound and the company will continue to utilize core strengths as it pursues attractive long-term growth opportunities. These forward-looking statements involve numerous risks and uncertainties, including, without limitation, other risks and uncertainties detailed from time to time in the Company's Securities and Exchange Commission filings, including the Company's Annual Report on Form 10-K for the year ended December 31, 2012. One or more of these factors have affected, and could in the future affect, the Company's projections. Therefore, there can be no assurances that the forward-looking statements included in this press release will prove to be accurate. In light of the significant uncertainties in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company, or any other persons, that the objectives and plans of the company will be achieved. All forward-looking statements made in this press release are based on information presently available to the management of the Company. The Company assumes no obligation to update any forward-looking statements.

SCI ENGINEERED MATERIALS, INC.

BALANCE SHEETS

ASSETS

	March 31, <u>2013</u> (UNAUDITED)	December 31, <u>2012</u>
Current Assets		
Cash	\$ 413,031	\$ 630,819
Accounts receivable, less allowance for doubtful accounts	511,712	453,302
Inventories	681,700	815,075
Prepaid expenses	195,918	209,422
Total current assets	<u>1,802,361</u>	<u>2,108,618</u>
Property and Equipment, at cost	7,571,649	7,483,480
Less accumulated depreciation	<u>(4,397,444)</u>	<u>(4,254,302)</u>
	<u>3,174,205</u>	<u>3,229,178</u>
Other Assets	<u>65,574</u>	<u>66,764</u>
TOTAL ASSETS	<u><u>\$ 5,042,140</u></u>	<u><u>\$ 5,404,560</u></u>

LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31, <u>2013</u> (UNAUDITED)	December 31, <u>2012</u>
Current Liabilities		
Short term debt	\$ 589,152	\$ 537,937
Accounts payable	275,017	260,531
Customer deposits	226,948	313,745
Accrued expenses	198,337	194,218
Total current liabilities	<u>1,289,454</u>	<u>1,306,431</u>
Long term debt	<u>1,101,113</u>	<u>1,220,435</u>
Total liabilities	<u>2,390,567</u>	<u>2,526,866</u>
Commitments and contingencies		
Total Shareholders' Equity	<u>2,651,573</u>	<u>2,877,694</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 5,042,140</u></u>	<u><u>\$ 5,404,560</u></u>

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF OPERATIONS

**FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)**

	<u>2013</u>	<u>2012</u>
Product revenue	\$ 1,369,870	\$ 1,814,542
Contract research revenue	63,732	68,490
	<u>1,433,602</u>	<u>1,883,032</u>
Cost of product revenue	1,205,484	1,513,890
Cost of contract research revenue	54,519	53,997
	<u>1,260,003</u>	<u>1,567,887</u>
Gross profit	173,599	315,145
General and administrative expense	295,210	280,913
Research and development expense	64,120	96,822
Marketing and sales expense	105,324	112,668
Loss from operations	<u>(291,055)</u>	<u>(175,258)</u>
Other income/(expense)		
Interest, net	(20,463)	(19,690)
Gain on sale of equipment	50,000	-
	<u>29,537</u>	<u>(19,690)</u>
Loss before provision for income tax	(261,518)	(194,948)
Income tax expense (benefit)	38	(5,185)
Net loss	(261,556)	(189,763)
Dividends on preferred stock	6,038	6,038
LOSS APPLICABLE TO COMMON STOCK	<u><u>\$ (267,594)</u></u>	<u><u>\$ (195,801)</u></u>
Earnings per share - basic and diluted		
Loss per common share		
Basic	\$ <u><u>(0.07)</u></u>	\$ <u><u>(0.05)</u></u>
Diluted	\$ <u><u>(0.07)</u></u>	\$ <u><u>(0.05)</u></u>
Weighted average shares outstanding		
Basic	<u><u>3,829,898</u></u>	<u><u>3,805,931</u></u>
Diluted	<u><u>3,829,898</u></u>	<u><u>3,805,931</u></u>

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

**FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (261,556)	\$ (189,763)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and accretion	150,645	143,524
Amortization	457	772
Stock based compensation	35,435	35,096
Gain on sale of equipment	(50,000)	-
Inventory reserve	5,437	95
Credit for doubtful accounts	(3,294)	-
Changes in operating assets and liabilities:		
Accounts receivable	(55,116)	(22,055)
Inventories	127,938	(470,699)
Prepaid expenses	13,504	(54,563)
Other assets	733	6,859
Accounts payable	14,486	205,315
Accrued expenses and customer deposits	(84,838)	400,557
Net cash (used in) provided by operating activities	<u>(106,169)</u>	<u>55,138</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of equipment	50,000	-
Purchases of property and equipment	(7,123)	(37,167)
Net cash provided by (used in) investing activities	<u>42,877</u>	<u>(37,167)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligations and notes payable	(154,496)	(127,252)
Net cash used in financing activities	<u>(154,496)</u>	<u>(127,252)</u>
NET DECREASE IN CASH	(217,788)	(109,281)
CASH - Beginning of period	<u>630,819</u>	<u>798,069</u>
CASH - End of period	<u>\$ 413,031</u>	<u>\$ 688,788</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 20,683	\$ 20,111
Income taxes	38	-
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment purchased by capital lease	86,389	-
Increase in asset retirement obligation	2,160	2,160

SCI ENGINEERED MATERIALS, INC.
RECONCILIATION OF GAAP TO NON-GAAP MEASURES
THREE MONTHS ENDED MARCH 31

	<u>2013</u>	<u>2012</u>
Net loss	\$ (261,556)	\$ (189,763)
Interest, net	20,463	19,690
Income taxes	38	(5,185)
Depreciation and amortization	151,102	144,296
EBITDA	<u>(89,953)</u>	<u>(30,962)</u>
Stock based compensation	35,435	35,096
Adjusted EBITDA	<u>\$ (54,518)</u>	<u>\$ 4,134</u>