



SCI Engineered Materials

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SCI Engineered Materials, Inc. Reports First Quarter 2014 Results

COLUMBUS, Ohio (May 6, 2014) 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, 2014.

Dan Rooney, Chairman, President and Chief Executive Officer, said, “We are encouraged by increased signs of improvement in our business; total revenue, backlog and bookings are trending favorably compared to the same periods a year ago. The profitable first quarter results reflect solid improvement led by strong performance in our core photonics business with additional contributions from sales to the thin film battery and solar markets. Our ongoing research and development efforts to develop innovative products for multiple end markets are gaining traction. Product backlog at March 31, 2014, was more than 130% above the same date last year. Bookings remain strong, particularly from customers in the photonics market.

Due to sequential increases in backlog over the past four quarters the company is operating certain production equipment near full capacity. Incremental expansion of our manufacturing is necessary to enable us to continue to respond to our customers’ needs. During the past three months we ordered additional production equipment that will be primarily used to manufacture products for the photonics market. We are encouraged by recent activity levels.”

Mr. Rooney added, “We are sad to report that Dr. Robert J. Baker, Jr., a member of SCI’s Board of Directors since 1992 passed away late last month. We were privileged to have

benefited from Dr. Baker's extensive industry knowledge and thoughtful guidance over the past 22 years. The search for a new Board member is underway."

Total revenue

Total revenue increased approximately 81% to \$2,592,500 for the first quarter 2014 from \$1,433,602, for the same period in 2013. First quarter 2014 total revenue included no contract research revenue versus \$63,732 for the first quarter 2013. Sales to customers in the photonics market accounted for the entire amount of the year-over-year increase. Backlog was \$3.7 million at March 31, 2014, compared to \$3.4 million at December 31, 2013 and \$1.6 million on March 31, 2013.

Gross profit

Gross profit more than tripled to \$586,773 for the first quarter 2014 from \$173,599 for the same period of the prior year, due to higher revenue and favorable product mix. Gross profit margin increased to 22.6% of total revenue for the three months ended March 31, 2014, from 12.1% the prior year.

Operating expense

Operating expense (marketing and sales, general and administrative, and R&D expenses) were \$542,437 for the first quarter 2014 compared to \$464,654 for the same period a year ago. Of the approximately \$78,000 increase in operating expenses, about \$42,000 of that amount was attributable to labor offset from grants completed in 2013.

Income (Loss) Applicable to Common Stock

Income applicable to common stock was \$21,234 or \$0.01 per diluted common share for the three months ended March 31, 2014, compared to a loss applicable to common stock of \$267,594 or \$0.07 per basic share for the first quarter 2013.

EBITDA

EBITDA (Earnings before interest, income taxes, depreciation and amortization) increased to \$180,355 for the first quarter 2014 from negative EBITDA of \$89,953 for the first quarter 2013.

Adjusted EBITDA, which excludes non-cash stock based compensation, was \$223,828 for the three months ended March 31, 2014, versus negative EBITDA of \$54,518 for the same period of the prior year.

About SCI Engineered Materials, Inc.

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

This press release contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but are not limited to, all statements regarding intent, beliefs, expectations, projections, customer guidance, forecasts, and plans of the Company and its management, and specifically include statements concerning the use of recently leased equipment primarily to manufacture products for the photonics market and a thorough search for a new Board member. 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, 2013. 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, 2014 (UNAUDITED)	December 31, 2013
Current Assets		
Cash	\$ 909,456	\$ 622,727
Accounts receivable, less allowance for doubtful accounts	758,635	634,077
Inventories	1,684,033	1,709,740
Prepaid expenses	299,247	56,298
Total current assets	3,651,371	3,022,842
Property and Equipment, at cost	7,868,777	7,573,929
Less accumulated depreciation	(4,913,551)	(4,781,362)
	2,955,226	2,792,567
Other Assets	62,784	55,808
TOTAL ASSETS	\$ 6,669,381	\$ 5,871,217

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 429,806	\$ 351,689
Accounts payable	624,221	456,111
Customer deposits	1,417,465	1,105,655
Accrued expenses	217,914	191,487
Total current liabilities	2,689,406	2,104,942
Long term debt	1,184,481	1,041,526
Total liabilities	3,873,887	3,146,468
Commitments and contingencies		
Total Shareholders' Equity	2,795,494	2,724,749
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 6,669,381	\$ 5,871,217

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

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

	(UNAUDITED) <u>2014</u>	(UNAUDITED) <u>2013</u>
Revenue	\$ 2,592,500	\$ 1,433,602
Cost of revenue	<u>2,005,727</u>	<u>1,260,003</u>
Gross profit	586,773	173,599
Operating expense	<u>542,437</u>	<u>464,654</u>
Income (loss) from operations	44,336	(291,055)
Other (expense) income	<u>(16,482)</u>	<u>29,537</u>
Income (loss) before provision for income taxes	27,854	(261,518)
Income tax expense	<u>582</u>	<u>38</u>
Net income (loss)	27,272	(261,556)
Dividends on preferred stock	<u>6,038</u>	<u>6,038</u>
INCOME (LOSS) APPLICABLE TO COMMON SHARES	<u><u>\$21,234</u></u>	<u><u>(\$267,594)</u></u>
Earnings per share - basic and diluted		
Income (loss) per common share		
Basic	\$0.01	(\$0.07)
Diluted	<u>\$0.01</u>	<u>(\$0.07)</u>
Weighted average shares outstanding		
Basic	3,855,898	3,829,898
Diluted	<u>3,855,898</u>	<u>3,829,898</u>

SCI ENGINEERED MATERIALS, INC.
CONDENSED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 362,335	\$ (106,169)
Investing activities	(6,014)	42,877
Financing activities	(69,592)	(154,496)
NET INCREASE (DECREASE) IN CASH	<u>286,729</u>	<u>(217,788)</u>
CASH - Beginning of period	<u>622,727</u>	<u>630,819</u>
CASH - End of period	<u><u>\$ 909,456</u></u>	<u><u>\$ 413,031</u></u>

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Net income (loss)	\$ 27,272	\$(261,556)
Interest, net	15,978	20,463
Income taxes	582	38
Depreciation and amortization	<u>136,523</u>	<u>51,102</u>
EBITDA	<u>180,355</u>	<u>(89,953)</u>
Stock based compensation	<u>43,473</u>	<u>35,435</u>
Adjusted EBITDA	<u><u>\$ 223,828</u></u>	<u><u>\$ (54,518)</u></u>