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SCI Engineered Materials, Inc. Reports Third Quarter 2013 Results

COLUMBUS, Ohio (November 4, 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 September 30, 2013.

Dan Rooney, Chairman, President and Chief Executive Officer, stated, "Our third quarter results reflect solid performance in SCI's core market which includes key customers in the photonics industry. Third party forecasts indicate the thin film solar market has bottomed out which further supports our belief this will be a strong long-term growth market for SCI. We are proceeding with internally financed investments to develop innovative products for customers in the solar and glass industries and new products for transparent electronics. Recently, there have been encouraging signs from several customers indicating their requirements remain strong through at least early-2014. Our \$3.4 million backlog at quarter-end represents a 36% increase versus the same date a year ago and the highest quarter-end backlog in more than three years. SCI's expanding product portfolio is well-positioned to meet the growth needs of our target markets. Near term, we anticipate total revenue will increase for the third consecutive quarter."

Total revenue

Third quarter 2013 total revenue of \$1,810,044 was the highest quarterly amount this year. For the same period in 2012, total revenue was \$1,982,403. The year-over-year difference was attributable to no third quarter sales to a customer who was acquired earlier this year and the Company's contract research was completed in the second quarter of 2013.

Gross profit

Gross profit was \$416,836 for the third quarter 2013 compared to \$562,176 a year ago. This decrease was principally due to lower total revenue and change in product mix. As a percentage of total revenue, gross profit was 23.0%, representing the highest quarterly amount in 2013, compared to 28.4% for the third quarter 2012.

Operating expense

Operating expense (marketing and sales, general and administrative, and R&D expenses) was \$469,179 for the third quarter 2013 compared to \$449,497 the prior year. Higher internally funded research and development expense to develop new products for the solar and glass industries and

innovative transparent electronics applications was partially offset by lower marketing and sales expense compared to the third quarter 2012.

(Loss) Income Applicable to Common Stock

There was a loss of \$76,322, or \$0.02 per share, for the third quarter 2013 versus income of \$84,711, or \$0.02 per share, for the third quarter 2012.

EBITDA

EBITDA (Earnings before interest, income taxes, depreciation and amortization) was \$81,754 for the third quarter 2013 versus \$258,257 for the same period in 2012. Adjusted EBITDA, which excludes non-cash stock based compensation, was \$113,110 for the three months ended September 30, 2013, versus \$289,673 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 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's belief that thin film solar will be a strong long-term growth market, several customers' indications that their requirements remain strong through into 2014, SCI's expanding product portfolio is well-positioned to meet the growth needs of SCI's target markets, the Company's anticipation that total revenue will increase for the third consecutive quarter during the final three months of 2013. 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

	September 30, <u>2013</u> (UNAUDITED)	December 31, <u>2012</u>
Current Assets		
Cash	\$ 494,124	\$ 630,819
Accounts receivable, less allowance for doubtful accounts	487,488	453,302
Inventories	1,193,231	815,075
Prepaid expenses	<u>551,874</u>	<u>209,422</u>
Total current assets	<u>2,726,717</u>	<u>2,108,618</u>
Property and Equipment, at cost	7,581,287	7,483,480
Less accumulated depreciation	<u>(4,676,818)</u>	<u>(4,254,302)</u>
	<u>2,904,469</u>	<u>3,229,178</u>
Other Assets	<u>60,097</u>	<u>66,764</u>
TOTAL ASSETS	<u><u>\$ 5,691,283</u></u>	<u><u>\$ 5,404,560</u></u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 355,262	\$ 537,937
Accounts payable	186,407	260,531
Customer deposits	1,265,708	313,745
Accrued expenses	<u>188,110</u>	<u>194,218</u>
Total current liabilities	1,995,487	1,306,431
Long term debt	<u>1,106,420</u>	<u>1,220,435</u>
Total liabilities	3,101,907	2,526,866
Commitments and contingencies		
Total Shareholders' Equity	<u>2,589,376</u>	<u>2,877,694</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 5,691,283</u></u>	<u><u>\$ 5,404,560</u></u>

SCI ENGINEERED MATERIALS, INC.
STATEMENT OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012
(UNAUDITED)

	THREE MONTHS ENDED SEPT. 30,		NINE MONTHS ENDED SEPT. 30,	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Product revenue	\$ 1,810,044	\$ 1,926,040	\$ 4,946,251	\$ 6,387,799
Contract research revenue	-	56,363	90,170	181,363
	<u>1,810,044</u>	<u>1,982,403</u>	<u>5,036,421</u>	<u>6,569,162</u>
Cost of product revenue	1,393,208	1,373,258	3,971,147	5,021,258
Cost of contract research revenue	-	46,969	76,648	147,552
	<u>1,393,208</u>	<u>1,420,227</u>	<u>4,047,795</u>	<u>5,168,810</u>
Gross profit	416,836	562,176	988,626	1,400,352
Operating expense	<u>469,179</u>	<u>449,497</u>	<u>1,370,655</u>	<u>1,448,159</u>
(Loss) income from operations	(52,343)	112,679	(382,029)	(47,807)
Other (expense) income	<u>(17,941)</u>	<u>(20,693)</u>	<u>(7,375)</u>	<u>(65,254)</u>
(Loss) income before provision for income taxes	(70,284)	91,986	(389,404)	(113,061)
Income tax (expense) benefit	<u>-</u>	<u>(1,237)</u>	<u>-</u>	<u>24,652</u>
Net (loss) income	(70,284)	90,749	(389,404)	(88,409)
Dividends on preferred stock	<u>(6,038)</u>	<u>(6,038)</u>	<u>(18,114)</u>	<u>(18,114)</u>
(LOSS) INCOME APPLICABLE TO COMMON SHARES	<u>\$ (76,322)</u>	<u>\$ 84,711</u>	<u>\$ (407,518)</u>	<u>\$ (106,523)</u>
Earnings per share - basic and diluted				
(Loss) income per common share				
Basic	\$ <u>(0.02)</u>	\$ <u>0.02</u>	\$ <u>(0.11)</u>	\$ <u>(0.03)</u>
Diluted	\$ <u>(0.02)</u>	\$ <u>0.02</u>	\$ <u>(0.11)</u>	\$ <u>(0.03)</u>
Weighted average shares outstanding				
Basic	<u>3,841,963</u>	<u>3,817,963</u>	<u>3,835,997</u>	<u>3,812,019</u>
Diluted	<u>3,841,963</u>	<u>3,827,774</u>	<u>3,835,997</u>	<u>3,812,019</u>

SCI ENGINEERED MATERIALS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 214,727	\$ 260,622
Financing activities	31,658	(563,997)
Investing activities	(383,080)	96,684
NET DECREASE IN CASH	(136,695)	(206,691)
CASH - Beginning of period	630,819	798,069
CASH - End of period	\$ 494,124	\$ 591,378

SCI ENGINEERED MATERIALS, INC.
RECONCILIATION OF GAAP TO NON-GAAP MEASURES
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2013	2012	2013	2012
Net (loss) income	(\$70,284)	\$90,749	(\$389,404)	(\$88,409)
Interest, net	17,650	19,843	56,772	64,404
Income taxes	-	1,237	-	(24,652)
Depreciation and amortization	134,388	146,428	437,079	435,948
EBITDA	81,754	258,257	104,447	387,291
Stock based compensation	31,356	31,416	101,086	102,294
Adjusted EBITDA	\$113,110	\$289,673	\$205,533	\$489,585