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SCI Engineered Materials, Inc. Reports 2014 Third Quarter and Nine Month Results

COLUMBUS, Ohio (November 4, 2014) SCI Engineered Materials, Inc. ("SCI") (SCIA: OTCQB), a global supplier and manufacturer of advanced materials for physical vapor deposition thin film applications that works closely with end users and OEMs to develop innovative, customized solutions, today reported its financial results for the three months and nine months ended September 30, 2014.

Dan Rooney, Chairman, President and Chief Executive Officer, said, "We continue to make progress in our strategic pursuit of growth opportunities in domestic and global markets. In September 2014 we received two substantial orders for Transparent Conductive Oxide (TCO) materials. A majority of these TCO targets will be shipped to Asia in the fourth quarter of 2014 and first quarter of 2015. Additionally, product testing and qualifications continued for other applications during the quarter that are expected to lead to orders."

Mr. Rooney added, "We are focused on maintaining strong operations while also positioning SCI to meet the needs of its customers. Through the first nine months of 2014, we acquired \$400,000 of additional equipment in response to customer demand for increased volume of manufactured products. The Company also paid off approximately \$300,000 related to capital lease obligations and notes payable; and cash increased 68% to more than \$1 million by the end of the quarter. Cash provided by operating activities was approximately \$750,000 for the first nine months of 2014 which is the highest amount for a comparable period since 2007."

Total revenue

Total revenue was \$1,744,917 for the third quarter 2014 compared to \$1,810,044 a year ago, primarily due to lower cost of a high-priced raw material.

For the nine months ended September 30, 2014, total revenue increased 48% to \$7,435,793 from \$5,036,421 for the same period in 2013, led by strong sales of products to photonics customers.

Gross profit

Gross profit decreased 3% to \$402,481 for the third quarter 2014 from \$416,836 for the same period in 2013, principally due to slightly lower total revenue and product mix. Third quarter 2014 gross profit margin of 23.1% was similar to the 23.0% for the third quarter last year.

Gross profit for the 2014 year-to-date period increased 59% to \$1,569,724 from \$988,626 a year ago. This was attributable to the solid increase in total revenue and favorable product mix, which was reflected in the higher gross profit margin of 21.1% compared to 19.6% for the same period a year ago.

Order backlog was \$2.6 million at September 30, 2014 compared to \$2.2 million at June 30, 2014, and \$3.4 million on the same date in 2013.

Operating expense

Operating expense (marketing and sales, general and administrative, and R&D expenses) decreased 4% to \$450,494 for the three months ended September 30, 2014 from \$469,179 for the same period last year.

For the first nine months of 2014, operating expense increased nearly 10% to \$1,504,733 from \$1,370,655 for the same period last year. There was an increase of \$122,000 in general and administrative expense for the third quarter 2014, including approximately \$58,000 of non-cash stock based compensation expense.

Loss Applicable to Common Stock

The loss applicable to common stock was \$72,870 for the third quarter 2014 versus a loss of \$76,322 a year ago. The loss per common share was \$0.02 for both periods.

There was a loss applicable to common shares of \$7,140 for the first nine months of 2014 compared to a loss of \$407,518 for the same period in 2013. Earnings per share was breakeven for the 2014 year-to-date period versus a loss of \$0.11 per common share in 2013.

EBITDA

EBITDA (Earnings before interest, income taxes, depreciation and amortization) for the third quarter 2014 was \$65,182 versus \$81,754 for the same period last year. The year-over-year difference was more than offset by a decrease in depreciation and amortization of \$18,739 for the third quarter 2014 compared to a year ago. Adjusted EBITDA, which also includes non-cash stock based compensation, was \$108,655 for the third quarter 2014 versus \$113,110 for the three months ended September 30, 2013. Most of the decline in third quarter 2014 depreciation and amortization was offset by higher non-cash stock based compensation.

For the nine months ended September 30, 2014, EBITDA increased to \$454,606 from \$104,447 a year ago. The primary factor was net income for the 2014 year-to-date period, prior to preferred stock dividends, compared to a net loss for the same period in 2013, partially offset by a \$44,755 decrease in depreciation and amortization in 2014 versus the same period last year. Adjusted EBITDA was \$583,315 for the first nine months of 2014 versus \$205,533 a year ago due to the factors noted above plus approximately \$28,000 of additional non-cash stock based compensation.

Cash Provided by Operating Activities

Cash provided by operating activities increased to \$746,403 for the nine months ended September 30, 2014, from \$214,727 for the same period last year. The most significant factor contributing to the 2014 year-to-date improvement was net income of \$10,974 compared to a net loss of \$389,404 for the same period in 2013. The 2014 net income and 2013 net loss amounts are both before \$18,144 dividends on preferred stock.

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

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

	September 30, <u>2014</u> (UNAUDITED)	December 31, <u>2013</u>
Current Assets		
Cash	\$ 1,046,131	\$ 622,727
Accounts receivable, less allowance for doubtful accounts	527,352	634,077
Inventories	1,192,542	1,709,740
Prepaid expenses	68,415	56,298
Total current assets	2,834,440	3,022,842
Property and Equipment, at cost	7,930,056	7,573,929
Less accumulated depreciation	(5,086,210)	(4,781,362)
	2,843,846	2,792,567
Other Assets	50,243	55,808
TOTAL ASSETS	\$ 5,728,529	\$ 5,871,217

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 469,094	\$ 351,689
Accounts payable	304,126	456,111
Customer deposits	834,629	1,105,655
Accrued expenses	217,837	191,487
Total current liabilities	1,825,686	2,104,942
Long term debt	1,038,411	1,041,526
Total liabilities	2,864,097	3,146,468
Commitments and contingencies		
Total Shareholders' Equity	2,864,432	2,724,749
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 5,728,529	\$ 5,871,217

SCI ENGINEERED MATERIALS, INC.
STATEMENT OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(UNAUDITED)

	THREE MONTHS ENDED SEPT. 30,		NINE MONTHS ENDED SEPT. 30,	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenue	\$ 1,744,917	\$ 1,810,044	\$ 7,435,793	\$ 5,036,421
Cost of revenue	<u>1,342,436</u>	<u>1,393,208</u>	<u>5,866,069</u>	<u>4,047,795</u>
Gross profit	402,481	416,836	1,569,724	988,626
Operating expense	<u>450,494</u>	<u>469,179</u>	<u>1,504,733</u>	<u>1,370,655</u>
(Loss) income from operations	(48,013)	(52,343)	64,991	(382,029)
Other expense	<u>(18,819)</u>	<u>(17,941)</u>	<u>(52,398)</u>	<u>(7,375)</u>
(Loss) income before provision for income taxes	(66,832)	(70,284)	12,593	(389,404)
Income tax expense	<u>-</u>	<u>-</u>	<u>(1,619)</u>	<u>-</u>
Net (loss) income	(66,832)	(70,284)	10,974	(389,404)
Dividends on preferred stock	<u>(6,038)</u>	<u>(6,038)</u>	<u>(18,114)</u>	<u>(18,114)</u>
LOSS APPLICABLE TO COMMON SHARES	<u><u>(72,870)</u></u>	<u><u>(76,322)</u></u>	<u><u>(7,140)</u></u>	<u><u>(407,518)</u></u>
Earnings per share - basic and diluted				
Loss per common share				
Basic	\$ <u><u>(0.02)</u></u>	\$ <u><u>(0.02)</u></u>	\$ <u><u>(0.00)</u></u>	\$ <u><u>(0.11)</u></u>
Diluted	\$ <u><u>(0.02)</u></u>	\$ <u><u>(0.02)</u></u>	\$ <u><u>(0.00)</u></u>	\$ <u><u>(0.11)</u></u>
Weighted average shares outstanding				
Basic	<u><u>3,866,039</u></u>	<u><u>3,841,963</u></u>	<u><u>3,861,090</u></u>	<u><u>3,835,997</u></u>
Diluted	<u><u>3,866,039</u></u>	<u><u>3,841,963</u></u>	<u><u>3,861,090</u></u>	<u><u>3,835,997</u></u>

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

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 746,403	\$ 214,727
Investing activities	(41,125)	31,658
Financing activities	(281,874)	(383,080)
NET INCREASE (DECREASE) IN CASH	423,404	(136,695)
CASH - Beginning of period	622,727	630,819
CASH - End of period	\$ 1,046,131	\$ 494,124

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2014	2013	2014	2013
Net (loss) income	\$ (66,832)	\$ (70,284)	\$ 10,974	\$ (389,404)
Interest	16,365	17,650	49,689	56,772
Income taxes	-	-	1,619	-
Depreciation and amortization	115,649	134,388	392,324	437,079
EBITDA	65,182	81,754	454,606	104,447
Stock based compensation	43,473	31,356	128,709	101,086
Adjusted EBITDA	\$ 108,655	\$ 113,110	\$ 583,315	\$ 205,533