



Contact:
Robert Lentz
(614) 876-2000

SCI Engineered Materials, Inc. Reports 2014 Fourth Quarter and Full-Year Results

COLUMBUS, Ohio (February 11, 2015) SCI Engineered Materials, Inc. ("SCI") (SCIA: OTCQX), 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 twelve months ended December 31, 2014.

Dan Rooney, President and Chief Executive Officer, stated, "Our full-year performance included several positive accomplishments, despite the lower fourth quarter results. We achieved a 16% increase in net sales, a 20% increase in gross profit and accelerated our growth in the global market with the addition of customers related to thin film solar and glass markets. Order bookings were particularly strong during the fourth quarter. Approximately \$190,000 of product revenue planned for late 2014 was carried over into 2015 due to shipping terms related to international exports to Asia. Several customers are currently conducting extensive product testing and qualification activities that are anticipated to lead to product orders this year."

Mr. Rooney added, "We ended 2014 with just over \$1 million in cash, which is 63% higher than year-end 2013. This strong improvement was driven by increased cash from operations which nearly doubled compared to a year ago. Our plans for 2015 include further R&D investments in new products and systems to address demand in niche markets. In late 2014 we began developing a new application requiring an aluminum composite for decorative coating. We also entered into an agreement with a university to evaluate SCI's transparent conductive oxide product for display applications. Our global marketing activities continue to gain traction in the thin film solar and glass markets."

"I am happy to report that late last month SCI's common stock began trading on the OTCQX, the highest tier of the Over-the-Counter market, which includes a select number of companies based on specific financial and market qualifications. Our trading symbol remains "SCIA" and we believe this

listing will improve the company's visibility among investors, lead to increased liquidity and improved market valuation.”

Total revenue

For the full-year 2014, total revenue increased 16% to \$9,255,103 from \$7,976,429 for 2013, led by higher sales to photonics customers. Total revenue was \$1,819,310 for the three months ended December 31, 2014, versus \$2,940,008 for the same period in 2013, which was attributable to a key customer's periodic inventory adjustment and reduced raw material cost that was passed on to customers.

Gross profit

Gross profit increased 20% for the twelve months ended December 31, 2014, to \$1,849,108 from \$1,536,292 the prior year due to the double-digit increase in total revenue. Gross profit margin increased to 20.0% for the full-year 2014 from 19.3% in 2013. Fourth quarter 2014 gross profit decreased to \$279,394 from \$547,666 the prior year, which was attributable to lower total revenue plus a \$70,000 write-off of accounts receivable and inventory related to early stage companies in the solar market. Gross profit margin was 15.4% for the fourth quarter 2014 versus 18.6% for the same period in 2013.

Order backlog was \$3.4 million at December 31, 2014 compared to \$2.6 million at September 30, 2014, and \$3.4 million on the same date in 2013.

Operating expenses

For the full-year 2014, operating expenses increased approximately 10% to \$1,999,931 from \$1,824,382 in 2013, principally due to higher non-cash stock based compensation expense, higher wages and compensation, and increased sponsored research and development expense related to new products for all of the company's markets. Operating expenses for the fourth quarter 2014 increased 9% to \$495,198 from \$453,727 for the same period in 2013 due to the same factors that contributed to the year-over-year increase.

Income / (Loss) Applicable to Common Stock

There was a loss applicable to common stock of \$244,076, or \$0.06 per share, for the twelve months ended December 31, 2014, versus a loss of \$311,798, or \$0.08 per common share, in 2013. For the

fourth quarter 2014, there was a loss applicable to common stock of \$236,936 or \$0.06 per share compared to income of \$95,720 or \$0.02 per diluted share for the same period in 2013.

EBITDA

EBITDA (earnings before interest, income taxes, depreciation and amortization) for the twelve months ended December 31, 2014, increased slightly to \$361,276 from \$358,957 in 2013. Fourth quarter 2014 EBITDA was negative \$93,330 compared to EBITDA of \$254,510 for the same period in 2013, due to the \$70,000 fourth quarter 2014 write-off mentioned above, lower total revenue and lower gross profit versus a year ago.

Adjusted EBITDA was \$534,271 for the full-year 2014 versus \$493,658 in 2013 and included higher non-cash stock based compensation expense. Fourth quarter 2014 adjusted EBITDA was negative \$49,044 compared to EBITDA of \$288,125 for the fourth quarter 2013.

Cash Provided by Operating Activities

Cash provided by operating activities nearly doubled to \$791,994 for the full-year 2014 from \$408,874 in 2013. The most significant factors contributing to the year-over-year improvement included changes in inventories, accounts payable and accounts receivable.

Cash at December 31, 2014, was \$1,011,956, an increase of approximately 63% compared to the same date in 2013.

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 product testing and qualification activities anticipated to lead to product orders in 2015, plans for 2015 include further investments in new products and systems to address demand in niche markets, and the OTCQX listing expected to improve company's visibility,

increased liquidity and improve market valuation. 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, 2014. 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.

BALANCE SHEETS

ASSETS

| | December 31, <u>2014</u> | December 31, <u>2013</u> |
|---|-----------------------------|-----------------------------|
| Current Assets | | |
| Cash | \$ 1,011,956 | \$ 622,727 |
| Accounts receivable, less allowance for doubtful accounts | 468,352 | 634,077 |
| Inventories | 1,678,609 | 1,709,740 |
| Prepaid expenses | <u>89,467</u> | <u>56,298</u> |
| Total current assets | <u>3,248,384</u> | <u>3,022,842</u> |
| Property and Equipment, at cost | 7,946,579 | 7,573,929 |
| Less accumulated depreciation | <u>(5,205,675)</u> | <u>(4,781,362)</u> |
| | <u>2,740,904</u> | <u>2,792,567</u> |
| Other Assets | <u>47,426</u> | <u>55,808</u> |
| TOTAL ASSETS | <u><u>\$ 6,036,714</u></u> | <u><u>\$ 5,871,217</u></u> |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|---|----------------------------|----------------------------|
| Current Liabilities | | |
| Short term debt | \$ 444,105 | \$ 351,689 |
| Accounts payable | 424,539 | 456,111 |
| Customer deposits | 1,281,573 | 1,105,655 |
| Accrued expenses | <u>208,518</u> | <u>191,487</u> |
| Total current liabilities | 2,358,735 | 2,104,942 |
| Long term debt | <u>949,759</u> | <u>1,041,526</u> |
| Total liabilities | 3,308,494 | 3,146,468 |
| Commitments and contingencies | | |
| Total Shareholders' Equity | <u>2,728,220</u> | <u>2,724,749</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u><u>\$ 6,036,714</u></u> | <u><u>\$ 5,871,217</u></u> |

SCI ENGINEERED MATERIALS, INC.
STATEMENTS OF OPERATIONS

THREE MONTHS AND TWELVE MONTHS ENDED DECEMBER 31, 2014 AND 2013

| | THREE MONTHS ENDED DEC. 31, | | TWELVE MONTHS ENDED DEC. 31, | |
|---|------------------------------------|--------------------|-------------------------------------|---------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Revenue | \$ 1,819,310 | \$ 2,940,008 | \$ 9,255,103 | \$ 7,976,429 |
| Cost of revenue | <u>1,539,916</u> | <u>2,392,342</u> | <u>7,405,985</u> | <u>6,440,137</u> |
| Gross profit | 279,394 | 547,666 | 1,849,118 | 1,536,292 |
| Operating Expenses | <u>495,198</u> | <u>453,727</u> | <u>1,999,931</u> | <u>1,824,382</u> |
| (Loss) income from operations | (215,804) | 93,939 | (150,813) | (288,090) |
| Other (expense) income | <u>(17,244)</u> | <u>7,819</u> | <u>(69,642)</u> | <u>444</u> |
| (Loss) income before income taxes | (233,048) | 101,758 | (220,455) | (287,646) |
| Income tax benefit | <u>2,150</u> | <u>-</u> | <u>531</u> | <u>-</u> |
| Net (loss) income | (230,898) | 101,758 | (219,924) | (287,646) |
| Dividends on preferred stock | <u>(6,038)</u> | <u>(6,038)</u> | <u>(24,152)</u> | <u>(24,152)</u> |
| (LOSS) INCOME APPLICABLE TO COMMON STOCK | <u>\$ (236,936)</u> | <u>\$ 95,720</u> | <u>\$ (244,076)</u> | <u>\$ (311,798)</u> |
| Earnings per share - basic and diluted | | | | |
| Income (loss) per common share | | | | |
| Basic | \$ <u>(0.06)</u> | <u>\$ 0.02</u> | \$ (0.06) | \$ (0.08) |
| Diluted | \$ (0.06) | <u>\$ 0.02</u> | \$ (0.06) | \$ (0.08) |
| Weighted average shares outstanding | | | | |
| Basic | <u>3,908,844</u> | <u>3,848,376</u> | <u>3,873,986</u> | <u>3,839,117</u> |
| Diluted | <u>3,908,844</u> | <u>3,848,376</u> | <u>3,873,986</u> | <u>3,839,117</u> |

SCI ENGINEERED MATERIALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2014 AND 2013

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|-------------------|
| CASH PROVIDED BY (USED IN): | | |
| Operating activities | \$ 791,994 | \$ 408,874 |
| Investing activities | (57,649) | 34,580 |
| Financing activities | <u>(345,116)</u> | <u>(451,546)</u> |
| NET INCREASE (DECREASE) IN CASH | 389,229 | (8,092) |
| CASH - Beginning of period | <u>622,727</u> | <u>630,819</u> |
| CASH - End of period | <u>\$ 1,011,956</u> | <u>\$ 622,727</u> |

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2014 AND 2013

| | Three months ended Dec. 31, | | Twelve months ended Dec. 31, | |
|-------------------------------|-----------------------------|-------------------|------------------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net (loss) income | \$ (230,898) | \$ 101,758 | \$ (219,924) | \$ (287,646) |
| Interest | 17,244 | 16,473 | 66,933 | 73,245 |
| Income taxes | (2,150) | - | (531) | - |
| Depreciation and amortization | <u>122,474</u> | <u>136,279</u> | <u>514,798</u> | <u>573,358</u> |
| EBITDA | (93,330) | 254,510 | 361,276 | 358,957 |
| Stock based compensation | 44,286 | 33,615 | 172,995 | 134,701 |
| Adjusted EBITDA | <u>\$ (49,044)</u> | <u>\$ 288,125</u> | <u>\$ 534,271</u> | <u>\$ 493,658</u> |