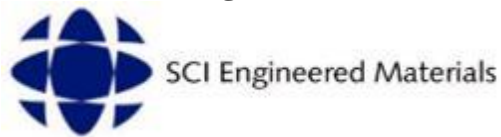


SOURCE: SCI Engineered Materials, Inc.



SCI Engineered Materials, Inc. Reports Second Quarter 2013 Results

COLUMBUS, OH--(Marketwired - Aug 7, 2013) - SCI Engineered Materials, Inc. ("SCI") (OTCQB:[SCIA](#)), 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 June 30, 2013.

Dan Rooney, Chairman, President and Chief Executive Officer, commented, "We exited the second quarter with increased optimism based on solid bookings and improving market conditions. Order backlog was \$2.4 million at June 30, 2013, which represents a 52% increase from the first quarter of this year. Our second quarter gross profit margin was at the highest level since 2010 benefiting from improved product mix. Specific actions we implemented earlier this year to reduce costs resulted in lower operating expenses sequentially and compared to the second quarter last year. These expenses continue to be actively monitored and will be adjusted going forward in response to product demand. We anticipate that our financial results for the second half of 2013 will be stronger than the first half of this year based on recent discussions with customers concerning their sales plans. There are increasing signs of positive developments in our markets and we are well-positioned to exploit these growth opportunities."

Total revenue

Total revenue was \$1,792,775 for the three months ended June 30, 2013, which is \$359,173 above the first quarter of 2013 and \$910,953 below the second quarter 2012. The sequential quarter benefited from a customer's resumption of shipments following their inventory adjustment earlier this year. Second quarter 2013 revenue compared to a year ago was impacted by lower cost of a high priced raw material and lower volume.

Gross profit

Second quarter 2013 gross profit was \$398,191 compared to \$173,599 for the first quarter 2013 and \$523,032 for the second quarter 2012. The sequential quarter increase is attributable to improved product mix and cost controls, while the year-over-year decline was primarily due to lower product volume. Gross profit margin of 22.2% for the second quarter of 2013 was above both the 12.1% for the first quarter of 2013 and 19.3% for the second quarter 2012.

Operating expense

Operating expense (marketing and sales, general and administrative, and R&D expenses) declined to \$436,822 for the second quarter 2013 from \$464,654 for the first quarter 2013 and \$508,259 for the second quarter 2012. Second quarter 2013 operating expenses were below each of the prior periods principally due to lower professional fees and lower sales compensation.

(Loss) Income Applicable to Common Stock

There was a loss of \$63,602, or \$0.02 per share, for the second quarter 2013 compared to a loss of \$267,594, or \$0.07 per share, for the first quarter 2013 and income of \$4,568, or breakeven per share, for the second quarter 2012. The sequential quarter difference was due to an increase in total revenue, improvement in gross profit and lower operating expenses.

EBITDA

Second quarter 2013 EBITDA (Earnings before interest, income taxes, depreciation and amortization) was \$112,647 compared to negative EBITDA of \$89,953 for the first quarter 2013 and \$159,997 of EBITDA for the second quarter 2012. Adjusted EBITDA, which excludes non-cash stock based

compensation, was \$146,943 for the second quarter 2013 versus negative \$54,518 for the first quarter 2013 and \$195,778 for the second quarter 2012.

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 anticipation that the second half of 2013 will be stronger than the first half of this year based on discussions with customers and initial implementation of plans by SCI's customers and increasing signs of positive developments in SCI's markets. 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

	June 30, 2013	December 31, 2012
	(UNAUDITED)	
Current Assets		
Cash	\$ 342,911	\$ 630,819
Accounts receivable, less allowance for doubtful accounts	506,332	453,302
Inventories	960,928	815,075
Prepaid expenses	102,791	209,422
Total current assets	<u>1,912,962</u>	<u>2,108,618</u>
Property and Equipment, at cost	7,578,987	7,483,480
Less accumulated depreciation	(4,545,948)	(4,254,302)
	<u>3,033,039</u>	<u>3,229,178</u>
Other Assets	<u>62,756</u>	<u>66,764</u>
TOTAL ASSETS	<u><u>\$ 5,008,757</u></u>	<u><u>\$ 5,404,560</u></u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 542,298	\$ 537,937
Accounts payable	273,235	260,531
Customer deposits	386,204	313,745
Accrued expenses	161,609	194,218
Total current liabilities	<u>1,363,346</u>	<u>1,306,431</u>
Long term debt	<u>1,017,106</u>	<u>1,220,435</u>
Total liabilities	<u>2,380,452</u>	<u>2,526,866</u>
Commitments and contingencies		
Total Shareholders' Equity	<u>2,628,305</u>	<u>2,877,694</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 5,008,757</u></u>	<u><u>\$ 5,404,560</u></u>

STATEMENTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012 (UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2013	2012	2013	2012
Product revenue	\$ 1,766,337	\$ 2,647,217	\$ 3,136,207	\$ 4,461,759
Contract research revenue	26,438	56,511	90,170	125,001
	<u>1,792,775</u>	<u>2,703,728</u>	<u>3,226,377</u>	<u>4,586,760</u>
Cost of product revenue	1,372,455	2,134,110	2,577,939	3,648,000
Cost of contract research revenue	22,129	46,586	76,648	100,583
	<u>1,394,584</u>	<u>2,180,696</u>	<u>2,654,587</u>	<u>3,748,583</u>
Gross profit	398,191	523,032	571,790	838,177
Operating expense	<u>436,822</u>	<u>508,259</u>	<u>901,476</u>	<u>998,662</u>
(Loss) income from operations	(38,631)	14,773	(329,686)	(160,485)
Other (expense) income	<u>(18,971)</u>	<u>(24,871)</u>	<u>10,566</u>	<u>(44,561)</u>
Loss before provision for income	(57,602)	(10,098)	(319,120)	(205,046)

taxes

Income tax benefit	38	20,704	-	25,889
Net (loss) income	(57,564)	10,606	(319,120)	(179,157)
Dividends on preferred stock	(6,038)	(6,038)	(12,076)	(12,076)
(LOSS) INCOME APPLICABLE TO COMMON SHARES	<u>\$ (63,602)</u>	<u>\$ 4,568</u>	<u>\$ (331,196)</u>	<u>\$ (191,233)</u>
Earnings per share - basic and diluted				
(Loss) income per common share				
Basic	\$ (0.02)	\$ 0.00	\$ (0.09)	\$ (0.05)
Diluted	<u>\$ (0.02)</u>	<u>\$ 0.00</u>	<u>\$ (0.09)</u>	<u>\$ (0.05)</u>
Weighted average shares outstanding				
Basic	3,835,997	3,811,997	3,832,964	3,808,964
Diluted	<u>3,835,997</u>	<u>3,821,528</u>	<u>3,832,964</u>	<u>3,808,964</u>

**SCI ENGINEERED MATERIALS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012
(UNAUDITED)**

	<u>2013</u>	<u>2012</u>
CASH (USED IN) PROVIDED BY:		
Operating activities	\$ (37,311)	\$ 75,112
Investing activities	34,759	(549,403)
Financing activities	<u>(285,356)</u>	<u>205,271</u>
NET DECREASE IN CASH	(287,908)	(269,020)
CASH - Beginning of period	<u>630,819</u>	<u>798,069</u>
CASH - End of period	<u>\$ 342,911</u>	<u>\$ 529,049</u>

SCI ENGINEERED MATERIALS, INC.
RECONCILIATION OF GAAP TO NON-GAAP MEASURES
THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND JUNE 30, 2012

	Three months ended June 30,	months ended	Six months ended June 30,	months ended
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net (loss) income	\$ (57,564)	\$ 10,606	\$ (319,120)	\$ (179,157)
Interest, net	18,659	24,871	39,122	44,561
Income taxes	(38)	(20,704)	-	(25,889)
Depreciation and amortization	<u>151,590</u>	<u>145,224</u>	<u>302,692</u>	<u>289,520</u>
EBITDA	112,647	159,997	22,694	129,035
Stock based compensation	<u>34,296</u>	<u>35,781</u>	<u>69,731</u>	<u>70,878</u>
Adjusted EBITDA	<u><u>\$ 146,943</u></u>	<u><u>\$ 195,778</u></u>	<u><u>\$ 92,425</u></u>	<u><u>\$ 199,913</u></u>