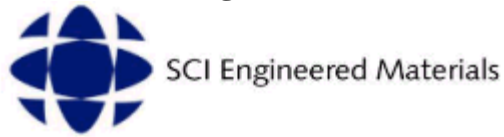


SOURCE: SCI Engineered Materials, Inc.



## SCI Engineered Materials, Inc. Reports Second Quarter 2014 Results

COLUMBUS, OH--(Marketwired - Jul 31, 2014) - SCI Engineered Materials, Inc. ("SCI") (OTCQB:[SCIA](#)), 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 six months ended June 30, 2014.

Dan Rooney, Chairman, President and Chief Executive Officer, stated, "We are pleased with our performance for the first half of 2014, which significantly improved compared to last year. EBITDA<sup>1</sup> increased to more than \$389,000 for the first six months of this year from less than \$23,000 for the same period in 2013. Our profitable second quarter results benefited from a substantial increase in revenue and gross profit."

"Several new customers are currently conducting extensive product testing and qualification activities. We are optimistic this will result in increased orders during the second half of 2014. Backlog was \$2.2 million at June 30, 2014 compared to \$2.4 million on the same date a year ago and \$3.7 million at March 31, 2014. Our expanded marketing initiatives, which include close contact with customers plus participation in domestic and international trade shows, remains focused on long-term global growth opportunities."

Mr. Rooney added, "We are pleased with two recent additions to our Board of Directors that fill vacant positions. Laura F. Shunk was elected to the Board at the Annual Meeting of Shareholders on July 10, 2014, and Emily Lu was appointed to the Board on July 25, 2014. We believe their business experience and skills will further strengthen our Board of Directors."

Laura's law practice principally involves intellectual property matters including successful execution of advanced material patents. Emily has considerable international experience including serving as Chief Strategy Officer for Solar Power Industries, a vertically integrated manufacturer for photovoltaic solar components with experience in domestic and global markets."

<sup>1</sup> EBITDA is defined as earnings before interest, income taxes, depreciation and amortization

### ***Total revenue***

Total revenue increased approximately 73% to \$3,098,376 for the second quarter 2014 from \$1,792,775, for the same period a year ago, primarily due to higher sales to core customers.

### ***Gross profit***

Gross profit increased 46% to \$580,470 for the second quarter 2014 from \$398,191 for the same period in 2013 due to higher revenue and product mix. Second quarter 2014 gross profit margin decreased to 18.7% of total revenue from 22.1% the prior year due to increased volume of a high-priced and comparatively low margin raw material used in the manufacture of certain products.

### ***Operating expense***

Operating expense (marketing and sales, general and administrative, and R&D expenses) were \$511,802 for the three months ended June 30, 2014, compared to \$436,822 for the same period last year. The year-over-year increase was primarily due to higher travel expense related to marketing and sales activities, adjustments to the allowance for doubtful accounts, plus higher benefit expense.

### ***Income (Loss) Applicable to Common Stock***

Income applicable to common stock was \$44,496 or \$0.01 per diluted common share for the second quarter 2014, compared to a loss applicable to common stock of \$63,602 or \$0.02 per basic share for the three months ended June 30, 2014.

## **EBITDA**

Second quarter 2014 EBITDA (Earnings before interest, income taxes, depreciation and amortization) increased to \$209,068 from \$112,647 for the same period last year. Adjusted EBITDA, which also includes non-cash stock based compensation, was \$250,831 for the second quarter 2014 versus \$146,943 for the three months ended June 30, 2014.

For the six months ended June 30, 2014, EBITDA increased to \$389,425 from \$22,694 for the same period last year. Adjusted EBITDA was \$474,661 for the first half of 2014 versus \$92,425 a year ago.

### **Cash Provided by (Used in) Operating Activities**

Cash provided by operating activities was \$511,792 for the six months ended June 30, 2014, compared to cash used in operating activities of \$37,311 for the same period last 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](http://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 business which is subject to periodic fluctuations in the price of a high value raw material used in the manufacture of certain products, timing of blanket orders from certain customers, expectations of lower revenue in the third quarter 2014, a return to normal raw material pricing is anticipated late in the third quarter of this year and cautious optimism concerning increased orders during the second half of 2014 from new customers currently conducting extensive testing and qualification activities and the Company's focus on long-term global growth opportunities. 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**

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
	<b>(UNAUDITED)</b>	
Current Assets		
Cash	\$ 944,425	\$ 622,727
Accounts receivable, less allowance for doubtful accounts	616,325	634,077
Inventories	969,649	1,709,740
Prepaid expenses	79,522	56,298

Total current assets	2,609,921	3,022,842
Property and Equipment, at cost	7,984,029	7,573,929
Less accumulated depreciation	(5,048,126 )	(4,781,362 )
	<u>2,935,903</u>	<u>2,792,567</u>
Other Assets	53,060	55,808
<b>TOTAL ASSETS</b>	<u>\$ 5,598,884</u>	<u>\$ 5,871,217</u>

#### **LIABILITIES AND SHAREHOLDERS' EQUITY**

Current Liabilities		
Short term debt	\$ 446,354	\$ 351,689
Accounts payable	420,840	456,111
Customer deposits	472,337	1,105,655
Accrued expenses	200,545	191,487
Total current liabilities	<u>1,540,076</u>	<u>2,104,942</u>
Long term debt	1,171,016	1,041,526
Total liabilities	<u>2,711,092</u>	<u>3,146,468</u>
Commitments and contingencies		
Total Shareholders' Equity	<u>2,887,792</u>	<u>2,724,749</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 5,598,884</u>	<u>\$ 5,871,217</u>

#### **SCI ENGINEERED MATERIALS, INC.** **Statement of Operations** **(UNAUDITED)**

	<b>THREE MONTHS ENDED JUNE</b>		<b>SIX MONTHS ENDED JUNE 30,</b>	
	<b>30,</b>		<b>2014</b>	<b>2013</b>
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Revenue	\$ 3,098,376	\$ 1,792,775	\$ 5,690,876	\$ 3,226,377
Cost of revenue	<u>2,517,906</u>	<u>1,394,584</u>	<u>4,523,633</u>	<u>2,654,587</u>
Gross profit	580,470	398,191	1,167,243	571,790
Operating expense	<u>511,802</u>	<u>436,822</u>	<u>1,054,239</u>	<u>901,476</u>

Income (loss) from operations	68,668	(38,631 )	113,004	(329,686 )
Other (expense) income	<u>(17,097 )</u>	<u>(18,971 )</u>	<u>(33,579 )</u>	<u>10,566</u>
Income (loss) before provision for income taxes	51,571	(57,602 )	79,425	(319,120 )
Income tax (expense) benefit	<u>(1,037 )</u>	<u>38</u>	<u>(1,619 )</u>	<u>-</u>
Net income (loss)	50,534	(57,564 )	77,806	(319,120 )
Dividends on preferred stock	<u>(6,038 )</u>	<u>(6,038 )</u>	<u>(12,076 )</u>	<u>(12,076 )</u>
<b>INCOME (LOSS) APPLICABLE TO COMMON SHARES</b>	<u>\$ 44,496</u>	<u>\$ (63,602 )</u>	<u>\$ 65,730</u>	<u>\$ (331,196 )</u>
Earnings per share - basic and diluted				
Income (loss) per common share				
Basic	<u>\$ 0.01</u>	<u>\$ (0.02 )</u>	<u>\$ 0.02</u>	<u>\$ (0.09 )</u>
Diluted	<u>\$ 0.01</u>	<u>\$ (0.02 )</u>	<u>\$ 0.02</u>	<u>\$ (0.09 )</u>
Weighted average shares outstanding				
Basic	<u>3,861,222</u>	<u>3,835,997</u>	<u>3,858,575</u>	<u>3,832,964</u>
Diluted	<u>3,861,222</u>	<u>3,835,997</u>	<u>3,858,575</u>	<u>3,832,964</u>

## CONDENSED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>CASH PROVIDED BY (USED IN):</b>		
Operating activities	\$ 511,792	\$ (37,311 )
Investing activities	(18,085 )	34,759
Financing activities	<u>(172,009 )</u>	<u>(285,356 )</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	321,698	(287,908 )
<b>CASH - Beginning of period</b>	<u>622,727</u>	<u>630,819</u>

CASH - End of period

\$ 944,425

\$ 342,911

**RECONCILIATION OF GAAP TO NON-GAAP MEASURES**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013**

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net income (loss)	\$ 50,534	\$ (57,564 )	\$ 77,806	\$ (319,120 )
Interest, net	17,346	18,659	33,324	39,122
Income taxes	1,037	(38 )	1,619	-
Depreciation and amortization	140,151	151,590	276,676	302,692
<b>EBITDA</b>	<u>209,068</u>	<u>112,647</u>	<u>389,425</u>	<u>22,694</u>
Stock based compensation	41,763	34,296	85,236	69,731
<b>Adjusted EBITDA</b>	<u>\$ 250,831</u>	<u>\$ 146,943</u>	<u>\$ 474,661</u>	<u>\$ 92,425</u>