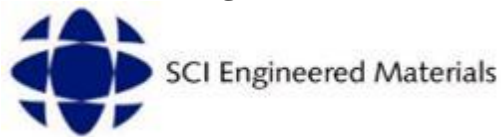


SOURCE: SCI Engineered Materials, Inc.



SCI Engineered Materials, Inc. Reports Second Quarter 2015 Results

COLUMBUS, OH--(Marketwired - Aug 3, 2015) - SCI Engineered Materials, Inc. ("SCI") (OTCQX:[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, 2015.

Dan Rooney, President and Chief Executive Officer, stated, "Our second quarter results reflect solid improvement in performance compared to a year ago, which benefited from favorable sales mix, increased product diversity and resulted in a 28.6% gross profit margin -- the highest quarterly amount in nearly three years. Income applicable to common shares increased 82% versus a year ago and included a 26% increase in R&D expense for the quarter as we continue to pursue our commitment to develop additional innovative products."

Mr. Rooney continued, "We entered the second quarter with expectations of substantial follow-on orders for thin film solar products; however, a temporary slowdown in our customers' order patterns occurred. These customers continue to increase their manufacturing capacity and we anticipate receiving orders from them later this year. Additionally, there are several new customers currently conducting extensive product testing and qualifications activities."

Mr. Rooney added, "We recently increased our focus on the display market with the addition of an experienced product development engineer to our research team. This further strengthens our plans to develop zinc oxide-based materials as low cost alternatives in the fabrication of transparent electrodes and metal oxide thin film transistors for display applications. Last fall we entered into a sponsored research agreement with Kent State University, recognized globally for its expertise in liquid crystal display, to further strengthen our focus on commercialization of new products. Recent results of this research increase our confidence that there are opportunities to penetrate this fast growing market."

Total revenue

Total revenue was \$2,228,686 for the second quarter 2015 compared to \$3,098,376 for the same period last year. For the first half of 2015, total revenue was \$4,956,493 versus \$5,690,876 a year ago. The year-over-year revenue differences for both periods compared to a year ago are principally due to further decreases in the cost of a high value raw material and to a lesser extent lower volume. On a sequential basis, total revenue for the third quarter 2015 is anticipated to be below the second quarter and is expected to increase sequentially in the fourth quarter of this year.

Order backlog was \$1.9 million at June 30, 2015 compared to \$2.2 million at June 30, 2014.

Gross profit

Gross profit increased 10% to \$636,687 for the second quarter 2015 from \$580,470 last year and increased 12% to \$1,306,092 for the first six months of 2015 from \$1,167,243 last year. Gross profit margin benefited for both periods in 2015 versus the prior year from increased sales of thin film solar products, a substantial decrease in the cost of a high priced low margin raw material and overall product mix. Gross profit margin increased to 28.6% for the second quarter 2015 from 18.7% a year ago and increased to 26.4% for the first half of 2015 from 20.5% for the same period last year.

Operating expense

Operating expense (including selling and administrative expense, marketing and sales expense and research and development expense) was \$533,727 for the second quarter 2015 compared to \$511,802 for

the second quarter 2014. This 4% increase was principally due to additional sponsored research and development initiatives focused on new products, including transparent conductive oxide systems and transparent electronic applications, higher professional fees and non-cash stock based compensation expense.

For the first half of 2015, operating expense increased 3% to \$1,084,378 from \$1,054,239 for the same period in 2014. The 20% increase in research and development expense, higher travel expenses and non-cash stock based compensation were the principal factors contributing to this year-over-year comparison.

Income Applicable to Common Shares

Income applicable to common shares increased 82% to \$81,050, or \$0.02 per diluted share, for the second quarter 2015, from \$44,496, or \$0.01 per diluted share, for the same period last year. This improvement was attributable to favorable product mix and higher gross profit. For the first six months of 2015, income applicable to common stock more than doubled to \$177,528, or \$0.04 per diluted share, compared to \$65,730, or \$0.02 per diluted share, a year ago.

EBITDA

EBITDA (earnings before interest, income taxes, depreciation and amortization) for the three months ended June 30, 2015, increased to \$216,386 from \$209,068 the prior year. Adjusted EBITDA, which excludes non-cash stock based compensation, increased 7% to \$268,919 for the second quarter 2015 from \$250,831.

EBITDA increased 15% to \$448,067 for the first six months of 2015 from \$389,425 for the same period last year. Adjusted EBITDA was \$553,190 for the six months ended June 30, 2015, compared to \$474,661 for the same period in 2014.

Cash and Total Debt Outstanding

Cash provided by operating activities increased 31% to \$670,806 for the first six months of 2015 compared to \$511,792 for the same period in 2014. There was a cash balance of \$1,410,121 at June 30, 2015, versus \$1,011,956 at December 31, 2014, an increase of 39%.

Total debt outstanding decreased 16% to \$1,174,000 at June 30, 2015 compared to \$1,394,000 at year-end 2014.

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 customers continuing to increase their manufacturing capacity, anticipating receiving orders from customer later this year, plans to develop zinc oxide-based materials as low cost alternatives in the fabrication of transparent electrodes and metal oxide thin film transistors for display applications, confidence there are opportunities to penetrate the display market and on a sequential basis, total revenue for the third quarter 2015 is anticipated to be below the second quarter 2015 and is expected to increase sequentially in the fourth quarter of this year. 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.

SCI ENGINEERED MATERIALS, INC.

BALANCE SHEETS

ASSETS

	June 30, 2015	December 31, 2014
	<u>(UNAUDITED)</u>	
Current Assets		
Cash	\$ 1,410,121	\$ 1,011,956
Accounts receivable, less allowance for doubtful accounts	449,059	468,352
Inventories	790,736	1,678,609
Prepaid expenses	155,929	89,467
Total current assets	<u>2,805,845</u>	<u>3,248,384</u>
Property and Equipment, at cost	7,972,346	7,946,579
Less accumulated depreciation	<u>(5,423,980)</u>	<u>(5,205,675)</u>
	<u>2,548,366</u>	<u>2,740,904</u>
Other Assets	<u>70,417</u>	<u>47,426</u>
TOTAL ASSETS	<u><u>\$ 5,424,628</u></u>	<u><u>\$ 6,036,714</u></u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 403,944	\$ 444,105
Accounts payable	473,035	424,539
Customer deposits	526,319	1,281,573
Accrued expenses	221,774	208,518
Total current liabilities	<u>1,625,072</u>	<u>2,358,735</u>
Long term debt	<u>770,220</u>	<u>949,759</u>
Total liabilities	<u>2,395,292</u>	<u>3,308,494</u>
Commitments and contingencies		
Total Shareholders' Equity	<u>3,029,336</u>	<u>2,728,220</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 5,424,628</u></u>	<u><u>\$ 6,036,714</u></u>

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014

(UNAUDITED)

	THREE MONTHS ENDED JUNE 30, 2015	2014	SIX MONTHS ENDED JUNE 30, 2015	2014
Revenue	\$ 2,228,686	\$ 3,098,376	\$ 4,956,493	\$ 5,690,876
Cost of revenue	<u>1,591,999</u>	<u>2,517,906</u>	<u>3,650,401</u>	<u>4,523,633</u>
Gross profit	636,687	580,470	1,306,092	1,167,243
SG & A expense	442,506	439,600	895,514	896,431
Research & Development expense	<u>91,221</u>	<u>72,202</u>	<u>188,864</u>	<u>157,808</u>
Income from operations	102,960	68,668	221,714	113,004
Other expense	<u>(14,835)</u>	<u>(17,097)</u>	<u>(31,073)</u>	<u>(33,579)</u>
Income before provision for income taxes	88,125	51,571	190,641	79,425
Income tax expense	<u>(1,037)</u>	<u>(1,037)</u>	<u>(1,037)</u>	<u>(1,619)</u>
Net income	87,088	50,534	189,604	77,806
Dividends on preferred stock	<u>(6,038)</u>	<u>(6,038)</u>	<u>(12,076)</u>	<u>(12,076)</u>
INCOME APPLICABLE TO COMMON SHARES	<u>\$ 81,050</u>	<u>\$ 44,496</u>	<u>\$ 177,528</u>	<u>\$ 65,730</u>
Earnings per share - basic and diluted				
Income per common share				
Basic	<u>\$ 0.02</u>	<u>\$ 0.01</u>	<u>\$ 0.04</u>	<u>\$ 0.02</u>
Diluted	<u>\$ 0.02</u>	<u>\$ 0.01</u>	<u>\$ 0.04</u>	<u>\$ 0.02</u>
Weighted average shares outstanding				
Basic	<u>3,978,728</u>	<u>3,861,222</u>	<u>3,959,601</u>	<u>3,858,575</u>
Diluted	<u>4,030,435</u>	<u>3,861,222</u>	<u>3,987,178</u>	<u>3,858,575</u>

SCI ENGINEERED MATERIALS, INC.**FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 670,806	\$ 511,792
Investing activities	(28,788)	(18,085)
Financing activities	(243,853)	(172,009)
NET INCREASE IN CASH	<u>398,165</u>	<u>321,698</u>
CASH - Beginning of period	<u>1,011,956</u>	<u>622,727</u>
CASH - End of period	<u><u>\$ 1,410,121</u></u>	<u><u>\$ 944,425</u></u>

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014

	Three months ended June 30,		Six months ended June 30,	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Net income	\$ 87,088	\$ 50,534	\$ 189,604	\$ 77,806
Interest, net	14,630	17,346	30,579	33,324
Income taxes	1,037	1,037	1,037	1,619
Depreciation and amortization	113,631	140,151	226,847	276,676
EBITDA	<u>216,386</u>	<u>209,068</u>	<u>448,067</u>	<u>389,425</u>
Stock based compensation	52,532	41,763	105,123	85,236
Adjusted EBITDA	<u><u>\$ 268,919</u></u>	<u><u>\$ 250,831</u></u>	<u><u>\$ 553,190</u></u>	<u><u>\$ 474,661</u></u>