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SCI Engineered Materials, Inc. Reports Second Quarter 2009 Results

COLUMBUS, Ohio (August 5, 2009) SCI Engineered Materials, Inc. (OTC Bulletin Board: SCIA), a manufacturer of ceramics and metals for advanced applications in the physical vapor deposition industry, today reported results for the three months ended June 30, 2009.

Dan Rooney, Chairman, President and Chief Executive Officer, stated, "We exited the second quarter with increased optimism based on preliminary indications that SCI's business had bottomed out and conditions in our end markets have stabilized. While challenges remain among customers serving the automotive market, we are gaining increased traction in the thin film solar market. In June 2009 we received an order for \$1 million of thin film solar products to be shipped by year-end. This is the first significant order SCI has received for these products and it represents an important step toward establishing our presence in this market. Trial orders have been shipped and qualifications are currently underway with several other thin film solar customers which may result in additional product orders this year. Thin film solar orders received in the second quarter 2009 exceeded shipments of thin film solar products for the entire year 2008.

Our financial results during the first half of 2009 have been impacted by the difficult global economic environment and significant non-cash expenses that are primarily related to stock based compensation. While the year-to-date results are below the prior year on a GAAP and non-GAAP basis, we believe adjusted EBITDA is a useful measure of SCI's performance. The quarterly non-cash stock based compensation expense for the remainder of this year is expected to be similar to the amount reported in the second quarter 2009. These ongoing non-cash expenses will continue through 2010 and then decline beginning in the first quarter of 2011. Recent encouraging signs in our business should lead to improved performance during the second half of 2009."

GAAP to Non-GAAP reconciliation

Reconciliations of the differences between all non-GAAP financial measures with the most directly comparable GAAP financial measures are included at the end of this release.

Total revenue

Total revenue was \$1,310,053 for the second quarter 2009 compared to \$1,517,513 for the same period last year. Product revenue declined to \$1,055,404 for the second quarter 2009 from \$1,517,513 in 2008. This decrease was attributable to large customers involved in the automobile market and was partially offset by higher product revenue related to thin film solar compared to the second quarter 2008. Reflecting SCI's position in key technologies, contract research revenue was \$254,649 for the second quarter 2009 compared to zero dollars for the same period a year ago. Contract research revenue, combined with revenue from new markets, partially offset the decrease in revenue from customers involved in the automobile market.

Total revenue for the first six months of 2009 and 2008 was similar at \$3,211,588 and \$3,231,453, respectively. Contract research revenue increased to \$501,074 for the first six months of 2009 from \$40,121 a year ago reflecting SCI's position in key technologies. The increase in contract research revenue, combined with revenue from new markets, nearly offset the decrease in revenue from customers involved in the automobile market. Product revenue was \$2,710,514 for the first six months of 2009 compared to \$3,191,332 a year ago. The slight decline in total revenue compared to the same period in 2008 can be attributed to the current economic downturn as customers have decreased spending and reduced inventory levels. Orders from customers in the Company's key markets increased late in the second quarter 2009.

Backlog was \$4.0 million at June 30, 2009 compared to \$2.7 million at both March 31, 2009 and June 30, 2008.

Gross profit

Gross profit was \$248,990 for the second quarter 2009 versus \$437,847 a year ago. This year-over-year decline reflected the impact of lower product revenue for the second quarter 2009, research and development labor included as cost of contract research revenue, and absorption of certain fixed costs. As a result, gross profit margin declined to 19% for the second quarter 2009 from 29% a year ago.

For the first six months of 2009 gross profit was \$676,510 compared to \$866,872 the prior year. This 22% decline was primarily due to the same factors that impacted gross profit for the second quarter 2009, including \$103,000 of research and development labor, compared to the same period last year. Gross profit margin was 21% versus 27% for the same period in 2008.

Marketing and sales expense

Marketing and sales expense was similar for the second quarter of 2009 and 2008 at \$146,358 and \$145,762, respectively, despite higher expenses for trade shows and commissions to outside manufacturing sales representatives in the second quarter 2009 compared to last year. The Company continues to implement marketing plans to gain increased penetration in key markets including thin film solar.

For the first half of 2009, marketing and sales expense increased 16% to \$314,450 from \$272,032 for the same period in 2008. This increase was principally due to non-cash stock based compensation expense, higher trade show expense and commissions to outside manufacturing sales representatives.

General and administrative expense

General and administrative expense increased to \$288,634 for the second quarter 2009 from \$250,408 for the same period last year, principally due to non-cash stock based compensation expense, higher insurance premiums and professional fees. Partially offsetting this increase was a reduction in compensation as part of SCI's overall cost control program for 2009.

For the first six months of 2009, general and administrative expense was \$703,958 compared to \$510,461 last year. Nearly the entire year-over-year difference was due to \$207,000 of non-cash stock based compensation versus \$24,000 a year ago. Additional factors related to the 2009 increase in general and administrative expense were higher insurance premiums and professional fees.

Research and development expense

Research and development continues to increase at SCI. Reported expense declined to \$79,247 for the second quarter 2009 from \$125,563 for the same period in 2008. The decrease in expense was a result of approximately \$103,000 of labor assigned to cost of contract research. This was attributable to an increase in contract research during the second quarter 2009 and a portion of SCI's R&D was required to be recorded as cost of contract research. SCI is reimbursed for these costs consistent with its various grants. The Company continues to pursue R&D opportunities to develop products for its customers and key markets.

For the first half of 2009, research and development expense declined 9% to \$204,577 from \$222,719 a year ago due to the same factors that occurred in the second quarter 2009.

EBITDA

Earnings before interest, income taxes, depreciation and amortization (EBITDA) was negative \$235,698 for the second quarter 2009 compared to EBITDA of \$4,996 for the same period last year. Adjusted EBITDA, excluding non-cash stock based compensation and financing expense, was negative \$109,398 for the second quarter 2009 versus \$20,320 last year.

EBITDA for the first six months of 2009 was negative \$406,205 versus EBITDA of \$36,274 last year. Adjusted EBITDA, excluding non-cash stock based compensation and financing expense, was negative \$48,615 for the first half of 2009 compared to EBITDA of \$65,911 in 2008.

Net interest expense

Net interest expense was \$26,283 for the second quarter 2009 compared to \$20,050 for the same period last year. The Company acquired additional equipment during the past 12 months to scale its production capacity and primarily financed this equipment through capital leases.

For the first six months of 2009, net interest expense increased to \$52,377 from \$37,822 a year ago. Interest expense for the six months ended June 30, 2009 increased \$5,226 while interest income declined \$9,329 due to lower interest rates.

Finance expense

On May 1, 2009 the Board of Directors authorized a one-year extension of the expiration date of common stock purchase warrants due to expire in May 2009 and November 2009. The expiration dates were extended to May 2010 and November 2010, respectively, which applied to a total of 160,418 warrants. The non-cash finance expense associated with this extension was approximately \$76,000 and was recorded in the second quarter 2009.

Loss applicable to common shares

The second quarter 2009 loss applicable to common shares was \$374,027, or \$0.10 per share, compared to a loss applicable to common shares of \$108,878, or \$0.03 per share, for the same period last year. The year-over-year increase was primarily due to significantly higher non-cash stock based compensation expense and non-cash finance expense, which totaled \$126,300 for the second quarter 2009 versus \$15,324 for the same period last year.

The net loss applicable to common shares for the first half of 2009 was \$687,454, or \$0.19 per share, compared to a net loss applicable to common shares of \$187,245 or \$0.05 per share, last year primarily due to significantly higher non-cash stock based compensation and non-cash finance expense, which totaled \$357,590 for the first six months of 2009 compared to \$29,637 a year ago.

Grant award

SCI was selected by a customer as a subcontractor for a grant recently awarded by the Ohio Department of Development. This grant ("Ohio-Based Manufacturing of Thin-Film Photovoltaics") provides support for the development of alternate transparent conductive oxides. It is expected to commence during the third quarter 2009 and completed during 2010. The amount of the subcontract work to be performed by the Company is \$125,000.

About SCI Engineered Materials, Inc.

SCI Engineered Materials, Inc. manufactures ceramics and metals for advanced applications such as photonics, thin film solar, thin film batteries, and semiconductors. SCI Engineered Materials is a global materials supplier with clients in more than 40 countries. Additional information is available at <http://www.sciengineeredmaterials.com>.

Reconciliation of GAAP to Non-GAAP Measures

SCI ENGINEERED MATERIALS, INC.
Reconciliation of GAAP to Non-GAAP Measures
(unaudited)

	Three months ended <u>June 30, 2009</u>	Three months ended <u>June 30, 2008</u>	Six months ended <u>June 30, 2009</u>	Six months ended <u>June 30, 2008</u>
(Loss) applicable to common shares	\$ (374,027)	\$ (108,878)	\$ (687,454)	\$ (187,245)
Interest expense, net	26,283	20,050	52,377	36,622
Income tax expense	-	-	-	-
Depreciation and amortization	<u>112,046</u>	<u>93,824</u>	<u>228,872</u>	<u>186,897</u>
EBITDA	(235,698)	4,996	(406,205)	36,274
Stock-based compensation expense	49,913	15,324	281,203	29,637
Finance Expense	<u>76,387</u>	<u>-</u>	<u>76,387</u>	<u>-</u>
Adjusted EBITDA	<u>\$ (109,398)</u>	<u>\$ 20,320</u>	<u>\$ (48,615)</u>	<u>\$ 65,911</u>

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, forecasts, and plans of the Company and its management, and specifically include statements concerning preliminary indications that SCI's business is bottoming out, continued stabilization in SCI's end markets, trial orders and qualification that may lead to additional thin film solar product order in 2009, expectation that non-cash stock based compensation expense for the remainder of this year will be similar to the amount reported in the second quarter 2009, and recent encouraging signs in SCI's business should lead to improved performance during the second half of 2009. 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, 2008. 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.

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