

## **SCI Engineered Materials, Inc. Reports Second Quarter 2008 Results**

COLUMBUS, Ohio (August 5, 2008) SCI Engineered Materials, Inc. (OTC Bulletin Board: SCCI), a manufacturer of ceramics and metals for advanced applications such as photonics, solar, thin film batteries, and semiconductors for select growth markets in the physical vapor deposition industry, today announced its financial results for the three months ended June 30, 2008.

Dan Rooney, Chairman, President and Chief Executive Officer, stated, "Our second quarter results reflect increased expenses as we continue to aggressively pursue opportunities in the Semiconductor and Thin Film Solar markets, and a decline in gross profit due to lower revenues attributable to a high value raw material. Although our total revenues were not what we had hoped for, bookings strengthened significantly during the second quarter. Backlog increased 80% to \$2.7 million at June 30, 2008 compared to March 31, 2008, positioning us for improved performance during the second half of this year."

Mr. Rooney continued, "We are receiving positive feedback from customers in the Thin Film Solar and Semiconductor industries concerning prototype and development products manufactured for them. The next milestone will be market orders for those products, which are anticipated to be received beginning later this year. The Company will be an exhibitor at the upcoming 23<sup>rd</sup> European Photovoltaic Solar Energy Conference and Exhibition in Valencia, Spain September 1-5, 2008. We continue to implement our marketing strategy in Asia, Europe and North America to increase the Company's industry visibility and to respond to growing market opportunities."

### Second Quarter 2008 Results

Revenues were \$1,517,513 for the second quarter 2008 compared to \$3,403,742 for the same period last year. The year-over-year decline was due to lower costs for a high value raw material compared to the second quarter 2007 coupled with lower sales to a large customer as previously disclosed. This customer began placing additional orders late in the second quarter 2008. Backlog was \$2.7 million at June 30, 2008 compared to \$1.5 million at March 31, 2008 and \$2.0 million at June 30, 2007.

Gross profit margin increased to 28.9% of total revenues for the second quarter 2008 from 15.1% a year ago. Favorable product mix in the second quarter 2008 significantly mitigated the gross profit impact of the decline in revenues compared to the second quarter last year. Gross profit was \$437,847 for the three months ended June 30, 2008 versus \$513,168 for the same period in 2007.

Specific emphasis continues to be directed toward market opportunities in the Semiconductor industry and the rapidly growing Thin Film Solar industry. As a result, expenses for the second quarter 2008 were impacted by higher costs associated with increasing the Company's

presence in these new markets and developing new products. Research and development expense increased 53% to \$125,563 for the second quarter 2008 from \$81,873 a year ago. This was attributable to increased staff versus a year ago and expanded efforts regarding new applications. Marketing and sales expense rose 32% to \$145,762 from \$110,449 for the second quarter 2007 due to increased staff and travel, especially for Thin Film Solar. General and administrative expense increased 14% to \$250,408 for the second quarter 2008 from \$219,716 last year as a result of increased staff and professional fees.

Earnings before interest, income taxes, depreciation and amortization ("EBITDA") were \$11,138 for the three months ended June 30, 2008 compared to \$181,962 the prior year. The year-over-year decline is attributable to lower revenues as described above and increased expenses related to development of new applications and market opportunities. Adjusted EBITDA, including non-cash stock based compensation expense, was \$26,462 for the three months ended June 30, 2008 versus \$196,274 for the same period in 2007.

Net interest expense was \$20,050 for the second quarter 2008 compared to net interest expense of \$3,780 for the same period in 2007. This increase was principally due to the acquisition of approximately \$1.5 million of equipment through leases and purchases during the twelve months ended June 30, 2008.

The net loss applicable to common shares was \$108,878, or \$0.03 per share, for the second quarter 2008 compared to net income applicable to common shares of \$95,379, or \$0.02 per diluted share, for the same period in 2007.

#### Six Month 2008 Results

Revenues declined to \$3,231,453 for the first half of 2008 from \$5,857,751 for the comparable period last year. This decrease was due to lower costs for a high value raw material used in certain products coupled with lower sales to a large customer. As previously noted, this customer placed additional orders late in the second quarter 2008.

Gross profit margin increased to 26.8% for the first half of 2008 from 16.6% a year ago due to improved product mix. Gross profit declined only 11% to \$866,872 for the first half of 2008 from \$971,748 for the same period in 2007 despite a 45% decrease in revenues. Results for the first half of 2007 included a substantial amount of products with a high value raw material, which has lower gross profit margins than the Company's other products.

The Company continues to pursue opportunities in select applications within the Thin Film Solar and Semiconductor industries. Research and development expense increased 54% to \$222,719 for the first half of 2008 from \$145,037 the prior year reflecting the Company's development of new products. Marketing and sales expense rose to \$272,032 for the first six months of 2008 from \$207,851 for the same period in 2007. This 31% year-over-year increase was due to increased staff and travel, especially related to the Thin Film Solar industry. General and administrative expense increased 12% to \$510,461 for the first half of 2008 from \$456,312 in 2007. This increase was primarily due to additional staff and professional fees.

Earnings before interest, income taxes, depreciation and amortization ("EBITDA") were \$49,759 for the six months ended June 30, 2008 compared to \$305,642 in 2007. Adjusted EBITDA,

including non-cash stock based compensation expense, was \$79,396 for the first half of 2008 versus \$334,268 the prior year.

Net interest expense was \$37,822 for the first six months of 2008 versus net interest income of \$2,872 for the comparable period last year. This change is due to the acquisition of additional production equipment during the past year through leases and purchases.

The net loss applicable to common shares was \$187,245, or \$0.05 per share, for the first six months of 2008, versus net income applicable to common shares of \$156,695, or \$0.04 per diluted share, a year ago.

#### About SCI Engineered Materials, Inc.

SCI Engineered Materials, Inc. manufactures ceramics and metals for advanced applications such as photonics including 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>.

*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 positive feedback regarding prototype and development products manufactured for customers in the Thin Film Solar and Semiconductor industries, and the next milestone of market orders for those products, which are anticipated to be received later this year (paragraph three). 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-KSB for the year ended December 31, 2007. 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.**  
Reconciliation of GAAP to Non-GAAP Measures  
(unaudited)

|                                  | Three months<br>ended<br>June 30, 2008 | Three months<br>ended<br>June 30, 2007 | Six months ended<br>June 30, 2008 | Six months ended<br>June 30, 2007 |
|----------------------------------|--|--|-----------------------------------|-----------------------------------|
| Net loss (income)                | \$ (102,736)                           | \$ 101,675                             | \$ (174,962)                      | \$ 169,287                        |
| Interest expense (income), net   | 20,050                                 | 3,780                                  | 37,822                            | (2,872)                           |
| Provision for income taxes       | -                                      | -                                      | -                                 | -                                 |
| Depreciation/Amortization        | 93,824                                 | 76,507                                 | 186,899                           | 139,227                           |
| EBITDA                           | 11,138                                 | 181,962                                | 49,759                            | 305,642                           |
| Stock based compensation expense | 15,324                                 | 14,312                                 | 29,637                            | 28,626                            |
| Adjusted EBITDA                  | <u>\$ 26,462</u>                       | <u>\$ 196,274</u>                      | <u>\$ 79,396</u>                  | <u>\$ 334,268</u>                 |

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