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For Additional Information
Contact: Robert Lentz
(614) 876-2000

SCI Engineered Materials, Inc. Reports Third Quarter 2009 Results

COLUMBUS, Ohio (November 3, 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 profitable results for the three months ended September 30, 2009.

Total revenue for the third quarter 2009 was \$2,224,756, the highest quarterly amount this year, versus \$4,008,635 for the same period a year ago. Net income applicable to common shares was \$8,792, or \$0.00 per diluted share, for the third quarter 2009 compared to net income of \$198,635, or \$0.05 per diluted share, for the same period last year.

Dan Rooney, Chairman, President and Chief Executive Officer, stated, "We are encouraged by the sequential quarter sales increase and our return to profitability in the third quarter 2009. These results particularly benefited from higher thin-film solar sales and contract research revenues, which increased 330% and 298%, respectively, compared to a year ago. Sales to photonics customers more than doubled from the second quarter 2009, although they were approximately 65% below the third quarter 2008. We continue to implement plans to leverage SCI's product and technical strengths to diversify our business."

Mr. Rooney added, "We continue to increase our market presence in the thin-film solar industry and are working to improve our position as an integral member of the supply chain. Solid orders for SCI's thin-film solar products were received during the third quarter and we also began to ship products for the previously announced \$1 million thin-film solar order. During the third quarter we also commenced work on an Ohio Department of Development grant focused on Ohio-based manufacturing of thin-film photovoltaic and support for development of alternate transparent conductive oxides. In September 2009 we participated in the European Photovoltaic Solar Energy Expo in Hamburg, Germany. This international exhibition provided us with increased visibility and generated additional global exposure for SCI's products. We believe these efforts will benefit SCI's performance as we continue to execute our growth strategy in this important market."

GAAP to Non-GAAP reconciliation

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

Total revenue

Total revenue was \$2,224,756 for the third quarter 2009, the highest quarterly amount this year, compared to \$4,008,635 for the same quarter in 2008. This decline was attributable to significantly lower sales to photonics customers, whose end markets include the automotive market, coupled with a substantial reduction in the price of a high value raw material compared to a year ago. Product revenue was \$2,028,355 for the third quarter 2009 versus \$3,959,286 a year ago. Sales of thin film solar products more than tripled for the third quarter 2009 compared to the third quarter 2008 as a result of additional customers and larger orders. Contract research revenue increased to \$196,401 for the third quarter 2009 from \$49,349 last year as work continued on high temperature superconductor developments and efforts to accelerate commercialization of additional thin film solar products. During the third quarter 2009 some of SCI's Photonics customers began to increase their order rates compared to earlier this year with orders scheduled for delivery during the remainder of 2009 and into early 2010.

Total revenue for the nine months ended September 30, 2009 was \$5,436,344 compared to \$7,240,088 last year. Significantly higher sales of thin film solar products combined with a significant increase in contract research revenue partially offset the sharp decline in sales of photonics products which were 44% below the same period last year. Contract research revenue increased to \$697,475 for the nine months ended September 30, 2009 from \$89,470 last year.

Backlog was \$3.7 million at September 30, 2009 compared to \$2.7 million on the same date last year and \$4.0 million at June 30, 2009.

Gross profit

Gross profit was \$552,299 for the third quarter 2009 versus \$769,566 a year ago, despite the 45% decline in total revenue compared to the third quarter 2008. In addition to the year-over-year decline in revenue, gross profit also reflected higher costs associated with research and development labor which is included as cost of contract research revenue. Gross profit margin increased 5.6 percentage points to 24.8% for the third quarter 2009 from 19.2% a year ago due to improved product mix.

For the first nine months of 2009, gross profit was \$1,228,809 compared to \$1,636,438 the prior year. Gross profit margin was 22.6% for both year-to-date periods in 2009 and 2008.

Marketing and sales expense

Marketing and sales expense was \$178,107 for the third quarter 2009 compared to \$169,524 for the prior year. Most of this increase was attributable to higher non-cash stock based compensation expense, plus higher expenses related to trade shows including the European Photovoltaic Solar Energy Expo in Hamburg, Germany in September 2009. For the first nine months of 2009, marketing and sales expense was \$492,557 versus \$441,556 for the same period in 2008. This 12% increase was principally due to non-cash stock based compensation expense, higher trade show expenses in 2009 and commissions to outside manufacturing sales representatives.

General and administrative expense

General and administrative expense increased to \$273,472 for the third quarter 2009 from \$241,101 a year ago. This increase was principally due to Sarbanes-Oxley expenses, which were partially offset by lower compensation expense. For the first nine months of 2009, general and administrative expense was \$977,430 compared to \$751,562 last year. The largest single increase was non-cash stock based compensation, which was approximately \$243,000 compared to \$36,000 for the same

period in 2008. Expenses related to Sarbanes-Oxley compliance were \$42,000 versus \$5,000 for the 2008 year-to-date period.

Research and development expense

SCI's research and development (R&D) efforts involve government grants and awards that currently include programs for the thin film solar and high temperature superconductor markets. Reported expense declined to \$59,829 for the third quarter 2009 from \$133,066 for the same period last year despite increased research and development. This was due to compensation that was assigned to cost of contract revenue that was \$59,000 for the third quarter 2009. SCI will continue to pursue profitable R&D opportunities to develop products for its customers and key markets that are compatible with its long-term growth strategy. For the 2009 year-to-date period, R&D expense declined 26% to \$264,406 from \$355,785 the prior year due to \$162,000 of compensation that was assigned to cost of contract research revenue for the first nine months of 2009.

EBITDA

Earnings before interest, income taxes, depreciation and amortization (EBITDA) were \$147,627 for the third quarter 2009 compared to \$317,419 for the same period last year. Adjusted EBITDA, excluding non-cash stock based compensation and financing expense, was \$197,541 for the third quarter 2009 versus \$333,655 a year ago.

EBITDA for the first nine months of 2009 was negative \$258,578 versus EBITDA of \$354,895 last year. Adjusted EBITDA, excluding non-cash stock based compensation and financing expense, was \$148,926 for the nine months of 2009 compared to \$400,768 in 2008.

Non-cash charges related to stock based compensation expense are expected to continue through 2010 and then decline beginning in the first quarter of 2011.

Net interest expense

Net interest expense was \$25,992 for the third quarter 2009 compared to \$21,921 a year ago. SCI has acquired additional manufacturing equipment during the past year to increase production capacity and also add new product lines. Most of this manufacturing equipment was financed through capital lease obligations.

For the nine months ended September 30, 2009, net interest expense increased to \$78,369 from \$59,743 a year ago, reflecting the acquisition of additional manufacturing equipment compared to the same period last year.

Net income/loss applicable to common shares

The Company was profitable for the third quarter 2009. Net income applicable to common shares for the three months ended September 30, 2009 was \$8,792, or \$0.00 per diluted share, compared to net income of \$198,635, or \$0.05 per diluted share, for the same period last year. The year-over-year results were particularly impacted by significantly lower sales revenue, specifically to photonics customers, and higher non-cash stock based compensation expenses.

The net loss applicable to common shares for the first nine months of 2009 was \$678,662, or \$(0.19) per share, compared to net income applicable to common shares of \$11,390 or \$0.00 per share for the same period in 2008. This was principally due to significantly higher non-cash expenses,

including stock based compensation, which totaled \$331,117 for the 2009 year-to-date period versus \$45,873 for the same period in 2008 and \$76,387 of financing expense in 2009 related to the warrant expiration date extension versus \$0 in 2008.

Research Contract and Award

On August 18, 2009, SCI announced it was awarded a two-year Phase II Small Business Innovation Research (SBIR) contract concerning "Homogenous BSCCO-2212 Round Wires for Very High Field Magnet." This contract enables SCI to continue its efforts to develop High Jc performance in BSCCO- 2212, which is currently the only superconducting material manufactured in round wire form that works successfully in high magnetic fields over 12 Tesla. This is a requirement for new generation magnets under development for high energy physics experiments. During the third quarter of 2009 SCI received notification from the U.S. Department of Energy of an assistance agreement in the amount of approximately \$750,000.

In July 2009 SCI was selected as a subcontractor for an award recently granted by the Ohio Department of Development. This award involved Ohio-based manufacturing of thin-film photovoltaic and provides support for the development of alternative transparent conductive oxides. Work commenced during the third quarter 2009 and is expected to be completed during 2010. The amount of the work to be performed is \$125,000 over the life of the contract.

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.

(unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net Income (loss)	\$14,899	\$233,654	(\$660,340)	\$29,792
Preferred stock dividend accrual	(6,107)	(6,119)	(18,322)	(18,402)
interest expense, net	25,992	21,921	78,369	59,743
Depreciation and amortization	<u>112,843</u>	<u>96,863</u>	<u>341,715</u>	<u>283,762</u>
EBITDA	147,627	346,319	(258,578)	354,895
Stock based compensation/Financing	<u>49,914</u>	<u>16,236</u>	<u>407,504</u>	<u>45,873</u>
Adjusted EBITDA	<u>\$197,541</u>	<u>\$362,555</u>	<u>\$148,926</u>	<u>\$400,768</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 implementation of plans to leverage SCI's product and technical strengths to diversify the business, increasing and improving SCI's position as an integral supplier to the thin-film solar supply chain, efforts to benefit SCI's performance and execution of its growth strategy in the thin-film solar market. 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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