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SCI Engineered Materials, Inc. Reports Fourth Quarter and Full Year 2008 Results

COLUMBUS, Ohio (February 26, 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 income applicable to common shares of \$88,787, or \$0.02 per diluted share, for the fourth quarter 2008 compared to \$120,976, or \$0.03 per diluted share, for the same period in 2007.

For the twelve months ended December 31, 2008, income applicable to common shares was \$100,177, or \$0.02 per diluted share, versus \$307,682, or \$0.07 per diluted share, in year 2007. The year 2008 results reflected increased investment in SCI to position the Company for future growth, which also included approximately \$500,000 in production equipment.

Dan Rooney, Chairman, President and Chief Executive Officer, stated, "2008 marked the third consecutive year of profitable results for SCI. Going forward, we are pleased with the anticipated growth in our markets, particularly Thin Film Solar, and are aggressively implementing plans to address those opportunities. During the past year we continued to make substantial investments in our business. Recently, we improved SCI's financial flexibility through a \$1 million business loan agreement with a regional bank that reflects the Company's improved performance. We anticipate using these funds primarily for working capital as we continue implementing our growth strategy during a period of unprecedented challenges in the global financial markets."

Mr. Rooney added, "Following a slow start in the first half of the year we ended 2008 with solid performance, particularly in the midst of fast-changing conditions in the global economy. We improved gross profit 7% year-over-year through improved product mix despite a decline in total revenues compared to 2007. Additionally, we realized further progress in several of our markets during 2008 with particular gains realized in Thin Film Solar due to SCI's growing product line coupled with increased marketing and sales activities in major markets within Asia, North America and Europe. These efforts also benefited from our participation in additional trade shows specifically focused on our key markets. Trial and qualification orders were shipped to customers in the semiconductor and solar industries during 2008 and further progress is anticipated in 2009."

2008 Financial Results

Total Revenue

Total revenue was similar for the fourth quarter 2008 and fourth quarter 2007 at \$2,379,807 and \$2,384,993, respectively. Key factors in both periods included higher sales to Photonics customers, which includes Thin Film Solar. Due to the lower cost of a high priced raw material total revenue declined 11% to \$9,619,895 for the year 2008 compared to \$10,832,682 for the year 2007. Excluding the revenue associated with the high price raw material, total revenue increased 29% for the fourth quarter 2008 and increased 21% for the year 2008 compared to the same periods in 2007.

Total orders for the year 2008 increased 13% to \$11.7 million from \$10.4 million in 2007. Backlog increased to \$2.9 million at December 31, 2008 versus \$1.0 million on the same date a year ago.

Gross Profit

Gross profit declined approximately 4% to \$575,039 for the fourth quarter 2008 from \$596,442 for the same period in 2007. However, for the year 2008, gross profit increased 7% to \$2,211,477 from \$2,057,823 in 2007 notwithstanding an 11% decline in total revenue. Due to the Company's improved product mix, gross profit margin increased four percentage points to 23.0% of total revenue for the year 2008 compared to the prior year.

General and Administrative Expense

General and administrative expense was similar for the fourth quarter 2008 and fourth quarter 2007 at \$215,417 and \$215,348, respectively. General and administrative expense increased 9% to \$966,979 for the year 2008 compared to \$884,771 in 2007, that was principally attributable to an increase in staff and professional fees.

Research and Development

Research and development expense declined 14% to \$98,639 for the fourth quarter 2008 from \$114,991 for the same period last year, primarily due to completion of a grant earlier in 2008. For the year 2008, research and development expense increased 23% to \$454,424 from \$368,971 in 2007. This increase was due to additional staff and expense associated with ongoing product development activities and research related to grants from the Department of Energy (DOE).

Throughout the Company's history it has conducted funded research primarily under grants from entities such as the DOE, the National Science Foundation, NASA, and the Ohio Department of Development. These activities are generally limited to funded research consistent with our focus on commercial applications in our principal markets.

The Company was awarded a \$708,715 grant from the Ohio Department of Development during December 2008, pursuant to the Advanced Energy Grant from the Ohio Third Frontier awards. This award was specifically granted for the commercialization of rotatable ceramic sputtering targets for thin film photovoltaic solar cell manufacturing. SCI will commercialize technologies for the production of transparent conductive oxide coated glass used in thin film photovoltaic

solar panels. These targets can be used in production processes involving various substrates, including glass, stainless steel, or plastic, which makes them well-suited for second generation thin film and third generation dye cells. By optimizing the composition of the coating utilizing these targets will allow manufacturers to improve the efficiency of their photovoltaic modules. SCI has supplied materials to the Thin Film Solar industry for more than 10 years during the industry's early stages of development.

The Company was awarded a two-year contract in August 2008 by the DOE for Phase II of a Small Business Innovation Research grant. As disclosed at that time, the final amount of the award was subject to the completion of financial negotiations with the DOE. In February 2009, the amount of the award was determined to be approximately \$750,000.

Marketing and Sales Expense

SCI significantly increased its commitment to marketing and sales throughout 2008. These initiatives were principally focused on the rapidly expanding Thin Film Solar market and also included the Company's increased presence at trade shows in North America and Europe for the Photonics, Semiconductor and Solar markets. Marketing and sales expense increased approximately 16% for the fourth quarter 2008 to \$145,646 from \$125,986 for the same period last year. In addition to staffing and trade show initiatives, the Company added an exclusive manufacturer's representative for Europe in the fourth quarter 2008 which is expected to benefit sales of Thin Film Solar products in future periods. For the year 2008, marketing and sales expense increased 28% to \$587,202 from \$457,689 the prior year.

EBITDA

Earnings before interest, income taxes, depreciation and amortization (EBITDA) was \$197,987 for the fourth quarter 2008 compared to \$201,703 for the same period last year. For the year 2008, EBITDA declined to \$552,882 from \$615,055 for the year 2007. Adjusted EBITDA, including stock-based compensation expense, increased to \$229,462 for the fourth quarter 2008 from \$216,016 a year ago and was \$630,230 for the year 2008 versus \$672,306 in 2007.

Net Interest Expense

Net interest expense was \$18,749 for the fourth quarter 2008 compared to \$7,476 for the same period in 2007. For the year 2008, net interest expense increased to \$78,492 from \$15,188 a year ago. The increases for both periods in 2008 compared to the prior year were attributable to production equipment acquired through capital lease obligations to increase the Company's production capacity including new product lines.

Income Applicable to Common Shares

Income applicable to common shares was \$88,787, or \$0.02 per diluted share, for the fourth quarter 2008 versus \$120,976, or \$0.03 per diluted share, for the same period in 2007, due to slightly lower gross profit and higher interest expense, net.

For the year 2008, income applicable to common shares was \$100,177, or \$0.02 per diluted share, compared to net income of \$307,682, or \$0.07 per diluted share, a year ago. The year-over-year difference is attributable to investments in the business. These included a \$129,513 increase in marketing and sales expense, an \$85,453 increase in research and development

expense, and an \$82,208 increase in general and administrative expense. The additional production equipment contributed to an \$82,000 increase in depreciation expense, and a \$63,000 increase in interest expense, net, which was partially offset by a \$153,654 increase in gross profit for the year 2008 compared to the year 2007.

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>.

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 the anticipated growth in SCI's markets, continued implementation of SCI's growth strategy, and the anticipation of further progress in the semiconductor and solar industries in 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-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 ended <u>December 31, 2008</u>	Three months ended <u>December 31, 2007</u>	Year ended <u>December 31, 2008</u>	Year ended <u>December 31, 2007</u>
Income applicable to common shares	\$ 88,787	\$ 120,976	\$ 100,177	\$ 307,682
Interest expense, net	18,749	7,476	78,492	15,188
Income tax expense	-	-	-	-
Depreciation and amortization	<u>90,451</u>	<u>73,251</u>	<u>374,213</u>	<u>292,185</u>
EBITDA	197,987	201,703	552,882	615,055
Stock-based compensation expense	<u>31,475</u>	<u>14,313</u>	<u>77,348</u>	<u>57,251</u>
Adjusted EBITDA	<u>\$ 229,462</u>	<u>\$ 216,016</u>	<u>\$ 630,230</u>	<u>\$ 672,306</u>

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