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SCI Engineered Materials, Inc. Reports Fourth Quarter and Full-Year 2009 Results

COLUMBUS, Ohio (February 17, 2010) SCI Engineered Materials, Inc. (OTC Bulletin Board: SCIA) develops, commercializes technologies and manufactures ceramics and metals for advanced applications in the physical vapor deposition industry. Today, the Company reported higher total revenue and increased earnings per share for the three months ended December 31, 2010.

Total revenue increased 8% to \$2,573,891 for the fourth quarter 2009, benefiting from both higher sales revenue and contract research revenue. Income applicable to common shares increased 77% to \$157,013 from \$88,787 for the fourth quarter 2008. Net income per common share after dividends on preferred stock increased to \$0.04 from \$0.02 for the same period a year ago.

Dan Rooney, Chairman, President and Chief Executive Officer, commented, "Our operating results for the fourth quarter 2009 reflect further improvement in our business. Total revenue and net income were the highest quarterly amounts of the year. The combination of increased revenue, especially from solar products, higher gross profit, and gradually improving conditions in our core markets contributed substantially to the favorable performance compared to the fourth quarter 2008."

Mr. Rooney continued, "We are specifically pursuing opportunities to increase our presence in the solar industry's supply chain and participate in government grants and awards consistent with SCI's long-term growth strategy. Late in the fourth quarter 2009, we received a large follow-on order for solar products and were also notified of an award to commercialize advanced technology. We exited 2009 with record backlog and look forward to improved performance in 2010."

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 increased 8% to \$2,573,891 for the fourth quarter 2009 compared to the same period last year. Both contract research revenue and solar sales more than tripled compared to

the fourth quarter 2008. Fourth quarter 2009 revenue was adversely impacted by lower prices for a high value raw material compared to a year ago. Excluding sales attributable to this material, revenue for the fourth quarter 2009 increased 54% versus the same period last year. Contract research revenue was \$308,233 for the fourth quarter 2009, an increase of 356% compared to a year ago. This is directly related to Small Business Innovation Research grants and program awards.

Lower prices for a high value raw material and the global economic recession contributed to a 17% decline in total revenue to \$8,010,235. Excluding revenue attributable to the high value raw material, sales increased 29% for 2009 versus 2008. Following a slow start in 2009, total revenue increased 49% for the second half of the year versus the first six months. Strong sales of solar products and higher contract research revenue were the primary factors. Contract research revenue was approximately \$1 million for 2009 compared to \$157,032 the prior year. Based on current government grants and awards, contract research revenue for 2010 is expected to be similar to the 2009 amount and then decline as those programs are completed.

The Company's backlog increased throughout the fourth quarter 2009 and was a record \$5.5 million at December 31, 2009 compared to \$3.7 million at September 30, 2009 and \$2.9 million on the same date a year ago. This increase was primarily due to a significant increase in orders from solar customers plus a grant received from the State of Ohio.

Gross profit

Gross profit increased 11% to \$641,070 for the fourth quarter 2009 compared to a year ago. More favorable product mix was partially offset by additional contract research labor costs. Gross profit margin increased to 24.9% of total revenue for the fourth quarter 2009 from 24.2% for the same period last year.

Gross profit for 2009 declined to \$1,869,879 from \$2,211,477 the prior year due to the decline in total revenue and additional contract research labor costs. Gross profit margin for 2009 was more favorable compared to 2008, increasing to 23.3% from 23.0%, respectively.

Operating expenses

The company's operating expenses include marketing and sales expense, general and administrative expense, and research and development expense. Together, these expenses were \$465,524 for the fourth quarter 2009, an increase of 1% over the same period last year. For the fourth quarter 2009, higher expenses were primarily related to additional non-cash stock based compensation (\$49,914) and Sarbanes-Oxley compliance (\$19,000), which were partially offset by lower company-funded research and development (R&D) expense (\$48,659) for the fourth quarter 2009 versus the same period last year. During 2009 a portion of R&D compensation was assigned to cost of contract research rather than R&D, which reduced R&D expense. Excluding the accounting reclassification, R&D expense would have been \$60,000 and \$7,000 greater for the fourth quarter 2009 and 2008, respectively.

Operating expenses, as defined above, increased approximately 10% to \$2,199,917 for 2009 versus the prior year. Major factors included an increase in non-cash stock based compensation expense (\$381,030) and Sarbanes-Oxley compliance (\$60,000). Partially offsetting these expense increases was lower R&D expense attributable to the accounting reclassification previously noted. Excluding the accounting reclassification, R&D expense would have been \$222,000 and \$28,000 greater for 2009 and 2008, respectively.

EBITDA

Earnings before interest, income taxes, depreciation and amortization (EBITDA) were \$227,134 for the fourth quarter 2009 versus \$197,987 a year ago. Adjusted EBITDA, excluding non-cash stock based compensation and financing expense, was \$277,048 for the fourth quarter 2009 versus \$229,462 last year.

EBITDA was negative \$31,444 for 2009 versus EBITDA of \$552,882 for 2008. Adjusted EBITDA, excluding non-cash stock based compensation and financing expense, was \$425,974 for 2009 compared to \$630,230 for 2008.

Non-cash charges related to stock based compensation expense are expected to continue at a lower amount than 2009 through 2010 and then decline further beginning in the first quarter of 2011.

Income tax benefit

The company had an income tax benefit of \$59,000 for the fourth quarter and full-year 2009 that was attributable to recognition of a deferred tax benefit of \$156,000 partially offset by state income tax expense of \$97,000. There was no tax benefit or expense for the fourth quarter or full-year 2008.

Net income/loss

Net income applicable to common shares for the fourth quarter 2009 was \$157,013, or \$0.04 per diluted share, for the fourth quarter 2009 compared to \$88,787 or \$0.02 per diluted share for the same period in 2008.

For 2009, the company reported a net loss applicable to common shares of \$521,649, or \$(0.15) per share, compared to net income applicable to common shares of \$100,177 or \$0.02 per diluted share for 2008.

Research contract and award

During the fourth quarter 2009 the company was notified that it was awarded a grant in the amount of \$775,400 by the Ohio Department of Development's Third Frontier Photovoltaic Program (OTFPVP) to commercialize advanced technology for high power density rotatable ceramic sputtering targets. These targets are used in the manufacture of photovoltaic solar cells. This technology will enable manufacturers to operate rotatable sputtering targets at higher power densities than is generally possible with current technology. This award received final approval in January 2010.

Recent exercise of warrants

On January 8, 2010, 150,000 common stock warrants, originally in the estates of Dr. Edward R. Funk Sc.D., and Ingeborg V. Funk, founders of the company, were exercised at a price of \$2.50 per share. The company received cash proceeds of \$375,000, which will be used for working capital purposes.

About SCI Engineered Materials, Inc.

SCI Engineered Materials, Inc. develops, commercializes technologies and manufactures ceramics and metals for advanced applications in the physical vapor deposition industry such as photonics, 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 December 31, 2009	Three Months Ended December 31, 2008	Twelve Months Ended December 31, 2009	Twelve Months Ended December 31, 2008
Net Income (loss)	\$ 163,121	\$ 94,758	\$ (497,219)	\$ 124,550
Preferred stock dividend accrual	(6,108)	(5,971)	(24,430)	(24,373)
Interest expense, net	23,949	18,749	102,318	78,492
Income tax benefit	(59,000)	-	(59,000)	-
Depreciation and amortization	105,172	90,451	446,887	374,213
EBITDA	227,134	197,987	(31,444)	552,882
Stock based compensation/Financing	49,914	31,475	457,418	77,348
Adjusted EBITDA	<u>\$ 277,048</u>	<u>\$ 229,462</u>	<u>\$ 425,974</u>	<u>\$ 630,230</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 the company specifically pursuing opportunities to increase its presence in the solar industry's supply chain and participate in government grants and awards consistent with the company's long-term growth strategy, and the company's record backlog and expectations for improved performance in 2010. 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, 2009. 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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