



SCI Engineered Materials

FOR IMMEDIATE RELEASE

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SCI Engineered Materials, Inc. Reports Second Quarter 2010 Results

COLUMBUS, Ohio (July 27, 2010) SCI Engineered Materials, Inc. (OTC Bulletin Board: SCIA), develops and commercializes technologies and manufactures ceramics and metals for advanced applications in the physical vapor deposition industry. The company reported its financial results today for the three months ended June 30, 2010 compared to the same period last year.

Dan Rooney, Chairman, President and Chief Executive Officer, stated, "Our second quarter 2010 results reflect solid growth in total revenue on a year-over-year and sequential quarter basis. Gross profit also improved compared to the second quarter 2009. During the second quarter of 2010 we incurred higher costs related to qualification of new products versus the same period last year. SCI's products continue to be evaluated by a growing number of companies engaged in the global solar market. This increased level of activity also resulted in higher operating expenses compared to the same period last year, especially for internal research and development efforts for solar products, and the recent hiring of additional manufacturing personnel to meet anticipated growth needs. We are optimistic that further progress will be realized during the remainder of 2010 and early-2011. Our quarterly financial performance will be influenced by the success rate of converting current solar product trials into orders."

Second Quarter 2010 Results

Total revenue

Total revenue increased 95% to \$2,560,664 for the second quarter 2010 from \$1,310,053 for the same period last year. Product sales more than doubled compared to the second quarter 2009, reflecting improved market conditions and higher sales to customers in the solar market. Contract research revenue, which is principally focused on government grants and awards to improve time-to-market for new products, was \$206,259 for the second quarter 2010 compared to \$254,649 a year ago due to the completion of certain milestones of those programs.

Backlog was \$3.7 million at June 30, 2010 compared to \$4.0 million on the same date a year ago.

Gross profit

Gross profit increased to \$666,148 for the second quarter 2010 from \$248,990 for the second quarter 2009. Gross profit margin rose 7 percentage points to 26.0% for the second quarter 2010 from 19.0% a year ago, reflecting higher product volume and improved mix.

Operating expenses

The company's operating expenses, which include: marketing, sales, general and administrative, research and development; increased 20% to \$618,394 for the second quarter 2010 from \$513,952 for the same period last year. This increase was principally due to higher internal research and development expenses associated with products for the solar market and higher professional fees compared to the second quarter 2009.

Interest expense, net

Interest expense, net, declined 18% to \$21,502 for the second quarter 2010 versus \$26,283 a year ago. This was principally due to the maturity of capital leases plus more principal and less interest being applied to ongoing capital lease payments compared to the same period last year.

Income tax expense

Income tax expense for the second quarter 2010 was \$21,670 compared to \$287 a year ago. The deferred tax benefit of \$156,000 at December 31, 2009 was reduced \$17,000 during the second quarter 2010 (\$72,000 for the 2010 year-to-date period), to account for usage of prior net operating losses against current year income.

Income (loss) applicable to common shares

Income applicable to common shares was \$8,759, or \$0.00 per fully diluted common share, compared to a loss applicable to common shares of \$(374,027), or \$(0.10) per common share, for the second quarter 2009.

Recent Exercise of Warrants and Stock Options

During the second quarter 2010, there were 40,833 warrants and 8,400 stock options exercised at \$2.88 and \$1.55 per common share, respectively. The total cash proceeds to SCI Engineered Materials, Inc. were \$130,619, which will be used for working capital purposes. At June 30, 2010, the company had 3,873,231 fully-diluted common shares outstanding.

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 anticipated growth needs, further progress will be realized during the remainder of 2010 and early-2011, and quarterly financial performance will be influenced by the success rate of converting current solar product trials into orders. 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.

**SCI ENGINEERED MATERIALS, INC.
CONDENSED STATEMENTS OF OPERATIONS**

**THREE MONTHS ENDED JUNE 30, 2010 AND 2009
AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(UNAUDITED)**

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2010	2009	2010	2009
PRODUCT REVENUE	\$ 2,354,405	\$ 1,055,404	\$ 4,357,005	\$ 2,710,514
CONTRACT RESEARCH REVENUE	206,259	254,649	444,772	501,074
	2,560,664	1,310,053	4,801,777	3,211,588
COST OF PRODUCT REVENUE	1,735,227	881,904	3,124,408	2,169,047
COST OF CONTRACT RESEARCH	159,289	179,159	333,519	366,031
	1,894,516	1,061,063	3,457,927	2,535,078
GROSS PROFIT	666,148	248,990	1,343,850	676,510
OPERATING EXPENSES	618,394	513,952	1,107,202	1,222,410
INCOME (LOSS) FROM OPERATIONS	47,754	(264,962)	236,648	(545,900)
INTEREST AND OTHER INCOME (EXPENSE)	(11,251)	(102,670)	(32,017)	(128,764)
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAX	36,503	(367,632)	204,631	(674,664)
INCOME TAX EXPENSE	(21,670)	(287)	(83,367)	(575)
INCOME (LOSS)	14,833	(367,919)	121,264	(675,239)
DIVIDENDS ON PREFERRED STOCK	(6,074)	(6,108)	(12,149)	(12,215)
INCOME (LOSS) APPLICABLE TO COMMON SHARES	\$ 8,759	\$ (374,027)	\$ 109,115	\$ (687,454)
INCOME (LOSS) APPLICABLE TO COMMON SHARES				
PER COMMON SHARE				
Basic	\$ 0.00	\$ (0.10)	\$ 0.03	\$ (0.19)
Diluted	\$ 0.00	\$ (0.10)	\$ 0.03	\$ (0.19)
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	3,742,039	3,562,259	3,727,074	3,562,149
Diluted	3,882,826	3,562,259	3,873,231	3,562,149

**SCI ENGINEERED MATERIALS, INC.
CONDENSED BALANCE SHEETS
(UNAUDITED)**

ASSETS

	June 30, <u>2010</u> (UNAUDITED)	December 31, <u>2009</u>
CURRENT ASSETS		
Cash	\$ 1,594,168	\$ 1,107,216
Accounts receivable	754,474	570,112
Inventories	1,410,619	1,031,777
Deferred taxes	84,000	156,000
Prepaid expenses	322,460	977,536
Total current assets	4,165,721	3,842,641
PROPERTY AND EQUIPMENT, AT COST	5,704,666	5,399,326
Less accumulated depreciation	(3,064,061)	(2,868,198)
	2,640,605	2,531,128
TOTAL OTHER ASSETS	55,468	63,267
TOTAL ASSETS	\$ 6,861,794	\$ 6,437,036

LIABILITIES AND SHAREHOLDERS' EQUITY

	June 30, <u>2010</u> (UNAUDITED)	December 31, <u>2009</u>
Short-term debt	\$ 454,161	\$ 425,664
Accounts payable	386,297	263,468
Customer deposits	830,083	1,319,455
Accrued expenses	371,269	278,157
Total current liabilities	2,042,170	2,286,744
Long-term debt	994,516	1,055,969
Total liabilities	3,036,686	3,342,713
COMMITMENTS AND CONTINGENCIES	-	-
TOTAL SHAREHOLDERS' EQUITY	3,825,108	3,094,323
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 6,861,794	\$ 6,437,036

SCI ENGINEERED MATERIALS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(UNAUDITED)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash provided by (used in) operating activities	\$ 349,871	\$ (57,933)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash used in investing activities	(143,242)	(106,250)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash provided by (used in) financing activities	<u>280,323</u>	<u>(194,372)</u>
NET INCREASE (DECREASE) IN CASH	486,952	(358,555)
CASH - Beginning of period	<u>1,107,216</u>	<u>1,399,050</u>
CASH - End of period	<u>\$ 1,594,168</u>	<u>\$ 1,040,495</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the years for:		
Interest, net	\$ 44,931	\$ 57,223
Income taxes	1,650	2,450
SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING ACTIVITIES		
Property and equipment purchased by capital lease	192,665	555,700
Machinery & equipment accrued asset retirement obligation increase	3,312	3,312
Financing expense related to warrant expiration date extension	-	76,387

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