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SCI Engineered Materials, Inc. Reports Fourth Quarter and Full Year 2010 Results

COLUMBUS, Ohio (February 28, 2011) SCI Engineered Materials, Inc. ("SCI") (OTC Bulletin Board: SCIA) develops and commercializes technologies and manufactures ceramics and metals for advanced applications in the physical vapor deposition industry.

Total revenue was \$1,680,964 for the fourth quarter 2010 compared to \$2,573,891 for the same period last year. The loss applicable to common shares was \$(58,837) versus income applicable to common shares of \$157,013 a year ago.

For the twelve months ended December 31, 2010, total revenue increased approximately 11% to \$8,916,122 due to a 15% increase in product revenue which benefited from higher volume including growing demand for solar products. The loss applicable to common shares was \$(7,229) compared to a loss of \$(521,649) the prior year.

Dan Rooney, Chairman, President and Chief Executive Officer, said "Our plans for 2011 are focused on increased bookings from core customers, growth from new customers and higher product sales. During this past year we have been involved in solar product trials with several customers whose facilities are located in the United States, Europe and Asia. We are working diligently to convert a number of these trials into production orders during this year as we seek to establish SCI as a meaningful supplier of zinc oxide-based transparent conductive oxide ("TCO") targets for the solar industry."

Mr. Rooney added, "SCI's growth in 2010 was funded from a combination of improved cash flow and external sources. We generated approximately \$561,000 in cash from operations, invested over \$225,000 in new equipment, leased an additional \$193,000 of production equipment and paid \$452,000 of principal toward outstanding loans and leases. Cash at year-end 2010 was \$1.5 million compared to \$1.1 million on the same date in 2009, an increase of approximately 37%.

During 2010 we also pursued additional capital in the form of direct loans from two State of Ohio agencies to enable us to accelerate time to market for our new solar products and to scale the business to meet anticipated demand. We closed on both of those loans, which total \$2.1 million, earlier this month. In addition, SCI will invest \$900,000 in these growth initiatives. These funds are integral to the implementation of our long-term strategy."

Fourth Quarter 2010 Results

Total revenue

Total revenue was \$1,680,964 for the fourth quarter 2010 compared to \$2,573,891 for the same period in 2009. This year-over-year decrease was attributable to lower product revenue, primarily due to the decline in price of a high value raw material and lower contract revenue resulting from scheduled completion of certain government grants.

Changes in the purchasing practices of some customers to shorter term blanket orders and the factors noted above impacted backlog. As a result, backlog was \$3.1 million at December 31, 2010 versus the record \$5.5 million on the same date in 2009.

Gross profit

Gross profit margin was 24.6% for the fourth quarter 2010 and was similar to the same period last year. In addition to the reduction in fourth quarter 2010 total revenue, gross profit was also impacted by \$71,000 of scale-up costs related to new products. Gross profit was \$414,189 for the fourth quarter 2010 versus \$641,070 a year ago.

Operating expenses

The company continues to invest in developing new products for the solar industry including transparent conductive oxide systems. These efforts include accelerating time to market for those products which involve internally generated R&D expenditures plus government grants and awards. As a result, R&D expense increased 146% to \$122,846 for the three months ended December 31, 2010, from \$51,352 for the same period last year.

Operating expenses, which include marketing and sales, general and administrative, and R&D, were \$516,679 for the fourth quarter 2010 versus \$467,758 a year ago. Excluding R&D expense, operating expenses were \$393,824 or 5% below the fourth quarter 2009.

Interest expense, net

Interest expense, net declined 25% to \$18,009 for the fourth quarter 2010 primarily due to the reduction in debt. During the past year a greater portion of principal was paid on SCI's outstanding loans and capital leases resulting in lower interest expense for the fourth quarter 2010 compared to same quarter last year.

Income tax benefit

Income tax benefit was \$68,197 for the three months ended December 31, 2010 versus \$59,862 for the same period last year.

Income (loss) applicable to common shares

The loss applicable to common shares was \$(58,837) or \$(0.02) per share for the fourth quarter 2010 compared to income applicable to common shares of \$157,013 or \$0.04 per diluted share a year ago.

Fiscal 2010 Results

Total revenue

Total revenue increased 11% to \$8,916,122 for the twelve months ended December 31, 2010 compared to \$8,010,235 the prior year due to higher product volume based on increased customer demand. Product revenue was 15% higher for 2010 compared to 2009, with \$8,038,774 and \$7,004,527, respectively. Contract research revenue declined approximately 13% to \$877,348 for 2010 from \$1,005,708 a year ago due to the completion of a government grant in the fourth quarter 2010.

Gross profit

Gross profit increased approximately 22% to \$2,273,984 for 2010 from \$1,869,879 a year ago due to higher product volume and product mix. Gross profit for 2010 was impacted by approximately \$71,000 of scale-up expenses late in the year. Gross profit margin increased to 25.5% for the twelve months ended December 31, 2010 from 23.3% the prior year.

Operating expenses

SCI's investment in R&D to develop new products increased R&D expense approximately 41% in 2010 to \$442,214 from \$314,386 a year ago. These efforts are focused on developing new products for the solar industry including transparent conductive oxide systems which involved a number of customer trials at year-

end 2010. The company's R&D programs involve activities beyond the scope of its current federal and state grants and awards.

The company's operating expenses, which include marketing and sales, general and administrative, and R&D, were \$2,194,089 for 2010 which was similar to operating expenses for 2009. Excluding R&D expense, operating expenses declined approximately 7% to \$1,751,875 for 2010 due to lower non-cash compensation of \$149,000 and lower Sarbanes-Oxley compliance expense of \$58,000 compared to the fourth quarter 2009.

Interest expense, net

Interest expense, net declined 21% to \$80,370 for 2010 from \$102,318 the prior year. This decline benefited from the payment of \$452,000 of principal toward loans and leases during 2010 plus more principal and less interest being applied to outstanding capital leases.

Income tax benefit

For the twelve months ended December 31, 2010, the income tax benefit was \$(9,133) compared to \$(59,000) for 2009. A deferred tax benefit of \$156,000 and a current expense of \$97,000 were recorded in 2009.

Income (loss) applicable to common shares

The loss applicable to common shares was (\$7,229) or \$0.00 per share for 2010 versus a loss of \$(521,649) or \$(0.15) per share for 2009. The improvement was due to increased revenue and gross profit compared to the prior year and operating expenses which were similar for both years attributable to lower non-cash stock compensation expense in 2010 compared to 2009.

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 plans for 2011 focused on increased bookings from core customers, growth from new customers and higher product sales, efforts to convert a number of product trials into orders during 2011, and SCI will invest \$900,000 in growth initiatives. 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.
STATEMENTS OF OPERATIONS
THREE MONTHS AND TWELVE MONTHS ENDED DECEMBER 31, 2010 AND 2009

	THREE MONTHS ENDED DEC. 31,		TWELVE MONTHS ENDED DEC. 31,	
	2010	2009	2010	2009
PRODUCT REVENUE	\$ 1,489,927	\$ 2,265,658	\$ 8,038,774	\$ 7,004,527
CONTRACT RESEARCH REVENUE	<u>191,037</u>	<u>308,233</u>	<u>877,348</u>	<u>1,005,708</u>
	<u>1,680,964</u>	<u>2,573,891</u>	<u>8,916,122</u>	<u>8,010,235</u>
 COST OF PRODUCT REVENUE	 1,131,434	 1,660,456	 6,002,686	 5,311,459
COST OF CONTRACT RESEARCH	<u>135,341</u>	<u>272,365</u>	<u>639,452</u>	<u>828,897</u>
	<u>1,266,775</u>	<u>1,932,821</u>	<u>6,642,138</u>	<u>6,140,356</u>
 GROSS PROFIT	 414,189	 641,070	 2,273,984	 1,869,879
 GENERAL AND ADMINISTRATIVE EXPENSE	 266,590	 261,104	 1,128,644	 1,237,672
 RESEARCH AND DEVELOPMENT EXPENSE	 122,846	 51,352	 442,214	 314,386
 MARKETING AND SALES EXPENSE	 <u>127,234</u>	 <u>155,302</u>	 <u>623,231</u>	 <u>647,859</u>
 INCOME (LOSS) FROM OPERATIONS	 <u>(102,481)</u>	 <u>173,312</u>	 <u>79,895</u>	 <u>(330,038)</u>
 OTHER INCOME (EXPENSE)				
Interest expense - net	(18,009)	(23,949)	(80,370)	(102,318)
Gain (loss) on disposal of equipment	-	(45,646)	10,251	(45,646)
Financing expense	-	-	-	(76,387)
Miscellaneous, net	<u>(458)</u>	<u>(458)</u>	<u>(1,830)</u>	<u>(1,830)</u>
	<u>(18,467)</u>	<u>(70,053)</u>	<u>(71,949)</u>	<u>(226,181)</u>
 INCOME (LOSS) BEFORE INCOME TAXES	 (120,948)	 103,259	 7,946	 (556,219)
 INCOME TAX BENEFIT	 <u>(68,197)</u>	 <u>(59,862)</u>	 <u>(9,133)</u>	 <u>(59,000)</u>
 NET INCOME (LOSS)	 (52,751)	 163,121	 17,079	 (497,219)
 DIVIDENDS ON PREFERRED STOCK	 <u>(6,086)</u>	 <u>(6,108)</u>	 <u>(24,308)</u>	 <u>(24,430)</u>
 INCOME (LOSS) APPLICABLE TO COMMON SHARES	 <u>\$ (58,837)</u>	 <u>\$ 157,013</u>	 <u>\$ (7,229)</u>	 <u>\$ (521,649)</u>
 EARNINGS PER SHARE - BASIC AND DILUTED				
 INCOME (LOSS) APPLICABLE TO COMMON SHARES PER COMMON SHARE				
Basic	\$ <u>(0.02)</u>	\$ <u>0.04</u>	\$ <u>0.00</u>	\$ <u>(0.15)</u>
Diluted	\$ <u>(0.02)</u>	\$ <u>0.04</u>	\$ <u>0.00</u>	\$ <u>(0.15)</u>
 WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	<u>3,773,581</u>	<u>3,565,257</u>	<u>3,750,376</u>	<u>3,562,960</u>
Diluted	<u>3,773,581</u>	<u>3,744,528</u>	<u>3,750,376</u>	<u>3,562,960</u>

**SCI ENGINEERED MATERIALS, INC.
BALANCE SHEETS**

	<u>ASSETS</u>	
	December 31,	December 31,
	<u>2010</u>	<u>2009</u>
	(UNAUDITED)	
CURRENT ASSETS		
Cash	\$ 1,511,752	\$ 1,107,216
Accounts receivable	682,017	570,112
Inventories	1,344,426	1,031,777
Deferred income taxes	156,000	156,000
Prepaid expenses	51,369	977,536
Total current assets	3,745,564	3,842,641
PROPERTY AND EQUIPMENT, AT COST	5,717,611	5,399,326
Less accumulated depreciation	(3,250,237)	(2,868,198)
	2,467,374	2,531,128
OTHER ASSETS	78,897	63,267
TOTAL ASSETS	\$ 6,291,835	\$ 6,437,036

	<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	
	December 31,	December 31,
	<u>2010</u>	<u>2009</u>
	(UNAUDITED)	
CURRENT LIABILITIES		
Short term debt	\$ 464,072	\$ 425,664
Accounts payable	573,741	263,468
Customer deposits	366,153	1,319,455
Accrued expenses	304,405	278,157
Total current liabilities	1,708,371	2,286,744
Long term debt	758,685	1,055,969
Total liabilities	2,467,056	3,342,713
COMMITMENTS AND CONTINGENCIES	-	-
TOTAL SHAREHOLDERS' EQUITY	3,824,779	3,094,323
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 6,291,835	\$ 6,437,036

SCI ENGINEERED MATERIALS, INC.
STATEMENTS OF CASH FLOWS
TWELVE MONTHS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 17,079	\$ (497,219)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and accretion	488,003	443,800
Amortization	3,088	3,088
Stock based compensation	203,403	381,030
Financing expense related to warrant expiration date extension	-	76,387
Gain on sale of equipment	(10,251)	45,646
Deferred income taxes	-	(156,000)
Inventory reserve	403	554
Credit for doubtful accounts	-	(8,947)
Changes in operating assets and liabilities:		
Accounts receivable	(111,905)	15,991
Inventories	(313,052)	232,102
Prepaid expenses	926,167	(934,973)
Other assets	(18,718)	(3,099)
Accounts payable	310,273	14,159
Accrued expenses and customer deposits	(933,678)	649,246
Net cash provided by (used in) operating activities	<u>560,812</u>	<u>261,765</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of equipment	10,500	-
Purchases of property and equipment	(225,209)	(168,132)
Net cash used in investing activities	<u>(214,709)</u>	<u>(168,132)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of common stock options	19,175	21,206
Net proceeds from exercise of common stock warrants	490,799	-
Payments related to Preferred Series B dividend	-	(24,430)
Principal payments on capital lease obligations and note payable	(451,541)	(382,243)
Net cash provided by (used in) financing activities	<u>58,433</u>	<u>(385,467)</u>
NET INCREASE (DECREASE) IN CASH	404,536	(291,834)
CASH - Beginning of period	<u>1,107,216</u>	<u>1,399,050</u>
CASH - End of period	<u>\$ 1,511,752</u>	<u>\$ 1,107,216</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the periods for:		
Interest, net	\$ 85,643	\$ 108,712
Income taxes	2,400	2,450
SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING ACTIVITIES		
Property and equipment purchased by capital lease	192,665	555,700
Increase in asset retirement obligation	6,624	6,624
Financing expense related to warrant extension	-	76,387