



FOR IMMEDIATE RELEASE

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SCI Engineered Materials, Inc. Reports Third Quarter 2011 Results

COLUMBUS, Ohio (November 10, 2011) SCI Engineered Materials, Inc. ("SCI") (OTC Bulletin Board: SCIA), which develops and commercializes technologies and manufactures ceramics and metals for advanced applications in the physical vapor deposition industry, reported its financial results today for the three months ended September 30, 2011.

Dan Rooney, Chairman, President and Chief Executive Officer, stated, "During the third quarter we expanded our portfolio of products and further strengthened manufacturing capabilities in anticipation of increased solar orders. The long selling cycle for solar products has been extended further this year due to the global economic slowdown and longer product trials. Sales in other key markets are higher than a year ago and the decline in contract research revenue for the quarter is consistent with our plan for 2011. The pipeline of trials remains strong and should benefit our sales in future quarters."

Mr. Rooney added, "I am more encouraged about SCI's long-term market potential for its thin film solar products following my recent trip to Asia to meet with current and prospective customers. We are currently manufacturing and developing products that are a solid fit for our customers' needs as they implement technologies that are among the most efficient in the industry. While it has taken longer than initially planned to realize this phase of our strategy, the company's growth opportunities continue to increase based on our innovative product offerings. We are working closely with customers globally to qualify and develop products that are expected to result in significant sales and also establish a sustainable advantage for SCI."

Total revenue for the three months ended September 30, 2011, was \$2,088,418 compared to \$2,433,381 for the same period last year due to the previously disclosed loss of a significant customer earlier this year and lower planned contract research revenue. The third quarter 2011 results include a \$156,000 non-cash charge to income tax expense. The company reported a \$(390,596) loss applicable to common shares, or \$(0.10) per share, for the third quarter 2011 versus a loss applicable to common shares of \$(57,504), or \$(0.02) per share, for the same period last year.

The company expects total revenue for 2011 to exceed last year as a result of higher sales to existing customers, the addition of new customers and from orders received for shipment in the fourth quarter 2011. Fourth quarter 2011 operating results are anticipated to improve sequentially, benefiting from initial sales of new products which are expected to accelerate during 2012.

Third Quarter 2011 Results

Total revenue

Total revenue was \$2,088,418 for the third quarter 2011. Product revenue declined 11% to \$1,947,849 due to the loss of sales from a customer who closed their manufacturing facility in the first quarter 2011. Contract research revenue was 42% below the same period a year ago due to the planned completion of government programs during the past 12 months.

At September 30, 2011, the company's backlog was \$2.3 million compared to \$2.4 million on the same date last year. Recent changes in the purchasing practices of several customers to shorter-term blanket orders can significantly influence the company's quarterly backlog.

Gross profit

Gross profit for the third quarter 2011 was \$294,906 versus \$515,945 for the third quarter 2010. The year-over-year decline was attributable to product mix and additional scale-up costs related to solar products.

Operating expenses

Operating expenses, which include marketing and sales, general and administrative, and R&D, declined 12% to \$503,328 for the three months ended September 30, 2011 with lower marketing and sales and general and administrative expenses offsetting an 11% increase in internally funded R&D expense.

EBITDA

Earnings before interest, income taxes, depreciation and amortization (EBITDA) were \$(79,555) for the third quarter 2011 versus \$62,498 for the same period a year ago. Adjusted EBITDA, which excludes non-cash stock based compensation expense, was \$(52,499) compared to \$112,411 the prior year.

Income Tax Expense

On September 30, 2011, the Company recorded a valuation allowance of \$156,000 against its remaining deferred tax assets. This valuation allowance does not preclude the Company's ability to utilize net operating loss carryforwards in the future to offset taxable earnings.

(Loss) Income Applicable to Common Shares

The loss applicable to common shares was \$(390,596), or \$(0.10) per share, for the third quarter 2011 compared to a loss applicable to common shares of \$(57,504), or \$(0.02) per share, last year.

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, customer guidance, forecasts, and plans of the Company and its management, and specifically include statements concerning strong pipeline of product trials should benefit sales in future quarters, currently expect operating results for the fourth quarter 2011 to be better sequentially due to new product shipments, growth opportunities continue to increase based on SCI's innovative products, and working closely with customers globally to qualify and develop products that are expected to result in significant sales. 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, 2010. 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.

BALANCE SHEETS

ASSETS

	September 30, 2011 (UNAUDITED)	December 31, 2010
CURRENT ASSETS		
Cash	\$ 1,178,852	\$ 1,511,752
Accounts receivable, less allowance for doubtful accounts	405,128	682,017
Inventories	1,537,439	1,344,426
Deferred income taxes	-	156,000
Prepaid expenses	72,273	51,369
Total current assets	3,193,692	3,745,564
PROPERTY AND EQUIPMENT, AT COST		
Less accumulated depreciation	(3,551,625)	(3,250,237)
	3,334,978	2,467,374
OTHER ASSETS		
	64,730	78,897
TOTAL ASSETS	\$ 6,593,400	\$ 6,291,835

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 2011 (UNAUDITED)	December 31, 2010
CURRENT LIABILITIES		
Short term debt	\$ 415,246	\$ 464,072
Accounts payable	659,518	573,741
Customer deposits	708,873	366,153
Accrued expenses	278,302	304,405
Total current liabilities	2,061,939	1,708,371
Long term debt	1,284,049	758,685
Total liabilities	3,345,988	2,467,056
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY	3,247,412	3,824,779
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 6,593,400	\$ 6,291,835

SCI ENGINEERED MATERIALS, INC.
STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

	THREE MONTHS ENDED SEPT. 30,		NINE MONTHS ENDED SEPT. 30,	
	2011	2010	2011	2010
PRODUCT REVENUE	\$ 1,947,849	\$ 2,191,843	\$ 6,389,880	\$ 6,548,847
CONTRACT RESEARCH REVENUE	140,569	241,538	493,740	686,311
	2,088,418	2,433,381	6,883,620	7,235,158
COST OF PRODUCT REVENUE	1,675,287	1,746,844	5,292,643	4,871,252
COST OF CONTRACT RESEARCH	118,225	170,592	331,704	504,111
	1,793,512	1,917,436	5,624,347	5,375,363
GROSS PROFIT	294,906	515,945	1,259,273	1,859,795
GENERAL AND ADMINISTRATIVE EXPENSE	239,027	265,843	790,261	862,054
RESEARCH AND DEVELOPMENT EXPENSE	133,205	119,979	495,392	320,740
MARKETING AND SALES EXPENSE	131,096	185,767	407,068	495,997
(LOSS) INCOME FROM OPERATIONS	(208,422)	(55,644)	(433,448)	181,004
OTHER INCOME (EXPENSE)				
Interest - net	(19,499)	(20,092)	(55,579)	(62,361)
Gain on sale of equipment	-	-	425	10,251
	(19,499)	(20,092)	(55,154)	(52,110)
(LOSS) INCOME BEFORE PROVISION FOR INCOME TAXES	(227,921)	(75,736)	(488,602)	128,894
INCOME TAX (EXPENSE) BENEFIT	(156,637)	24,304	(165,112)	(59,064)
NET (LOSS) INCOME	(384,558)	(51,432)	(653,714)	69,830
DIVIDENDS ON PREFERRED STOCK	(6,038)	(6,072)	(18,114)	(18,222)
(LOSS) INCOME APPLICABLE TO COMMON SHARES	\$ (390,596)	\$ (57,504)	\$ (671,828)	\$ 51,608
EARNINGS PER SHARE - BASIC AND DILUTED				
(LOSS) INCOME APPLICABLE TO COMMON SHARES PER COMMON SHARE				
Basic	\$ (0.10)	\$ (0.02)	\$ (0.18)	\$ 0.01
Diluted	\$ (0.10)	\$ (0.02)	\$ (0.18)	\$ 0.01
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	3,779,768	3,773,017	3,778,620	3,742,553
Diluted	3,779,768	3,773,017	3,778,620	3,899,852

SCI ENGINEERED MATERIALS, INC.
STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(UNAUDITED)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$ (653,714)	\$ 69,830
Adjustments to reconcile net (loss) income to net cash from operating activities:		
Depreciation and accretion	391,901	363,436
Amortization	2,316	2,316
Stock based compensation	88,349	153,490
Patent impairment	38,726	-
Gain on sale of equipment	(425)	(10,251)
Deferred income taxes	156,000	44,000
Inventory reserve	22,369	20,591
Credit for doubtful accounts	(530)	-
Changes in operating assets and liabilities:		
Accounts receivable	277,419	(114,479)
Inventories	(215,383)	45,413
Prepaid expenses	(20,904)	931,985
Other assets	(26,875)	6,516
Accounts payable	85,777	159,873
Accrued expenses and customer deposits	311,650	(1,201,767)
Net cash provided by operating activities	<u>456,676</u>	<u>470,953</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of equipment	425	10,500
Purchases of property and equipment	(1,069,537)	(221,111)
Net cash used in investing activities	<u>(1,069,112)</u>	<u>(210,611)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of common stock options	12,150	15,145
Net proceeds from exercise of common stock warrants	-	490,799
Proceeds from notes payable	642,126	-
Principal payments on capital lease obligations and notes payable	(350,588)	(336,989)
Payment of cumulative dividends on preferred stock	(24,152)	-
Net cash provided by financing activities	<u>279,536</u>	<u>168,955</u>
NET (DECREASE) INCREASE IN CASH	(332,900)	429,297
CASH - Beginning of period	<u>1,511,752</u>	<u>1,107,216</u>
CASH - End of period	\$ <u><u>1,178,852</u></u>	\$ <u><u>1,536,513</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the years for:		
Interest	\$ 57,708	\$ 66,555
Income taxes	713	2,400
SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING ACTIVITIES		
Property and equipment purchased by capital lease	185,000	192,665
Increase in asset retirement obligation	4,968	4,968

SCI ENGINEERED MATERIALS, INC.

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND SEPTEMBER 30, 2010

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2011	2010	2011	2010
RECONCILIATION OF GAAP TO NON-GAAP MEASURES				
Net (loss) income	\$ (384,558)	\$ (51,432)	\$ (653,714)	\$ 69,830
Dividends on preferred stock	(6,038)	(6,072)	(18,114)	(18,222)
Interest, net	19,499	20,092	55,579	62,361
Income taxes	156,637	(24,304)	165,112	59,064
Patent impairment	-	-	38,726	-
Depreciation and amortization	134,905	124,214	394,217	365,752
EBITDA	(79,555)	62,498	(18,194)	538,785
Stock based compensation	27,056	49,913	88,349	153,490
Adjusted EBITDA	\$ (52,499)	\$ 112,411	\$ 70,155	\$ 692,275