

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2011

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: **0-31641**

SCI ENGINEERED MATERIALS, INC.

(Exact name of small business issuer as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

31-1210318
(I.R.S. Employer
Identification No.)

2839 Charter Street, Columbus, Ohio 43228
(Address of principal executive offices) (Zip Code)

(614) 486-0261
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

3,778,898 shares of Common Stock, without par value, were outstanding at April 21, 2011.

FORM 10-Q

SCI ENGINEERED MATERIALS, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SCI ENGINEERED MATERIALS, INC.

BALANCE SHEETS

ASSETS

	March 31, 2011	December 31, 2010
	(UNAUDITED)	
CURRENT ASSETS		
Cash	\$ 1,196,529	\$ 1,511,752
Accounts receivable		
Trade, less allowance for doubtful accounts of \$16,000	646,027	574,965
Contract	90,912	86,501
Other	9,135	20,551
Inventories	1,473,605	1,344,426
Deferred income taxes	156,000	156,000
Prepaid expenses	432,562	51,369
Total current assets	<u>4,004,770</u>	<u>3,745,564</u>
PROPERTY AND EQUIPMENT, AT COST		
Machinery and equipment	5,235,350	5,267,891
Furniture and fixtures	134,666	134,666
Leasehold improvements	315,054	315,054
Construction in progress	53,568	-
	<u>5,738,638</u>	<u>5,717,611</u>
Less accumulated depreciation	<u>(3,337,956)</u>	<u>(3,250,237)</u>
	<u>2,400,682</u>	<u>2,467,374</u>
OTHER ASSETS		
Deposits	54,328	29,621
Intangibles	54,710	49,276
Total other assets	<u>109,038</u>	<u>78,897</u>
TOTAL ASSETS	<u>\$ 6,514,490</u>	<u>\$ 6,291,835</u>

The accompanying notes are an integral part of these financial statements.

SCI ENGINEERED MATERIALS, INC.

BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31, 2011	December 31, 2010
	(UNAUDITED)	
CURRENT LIABILITIES		
Capital lease obligation, current portion	\$ 399,329	\$ 399,780
Note payable, current portion	64,776	64,292
Accounts payable	430,222	573,741
Customer deposits	849,280	366,153
Accrued compensation	59,915	71,704
Accrued expenses and other	<u>275,412</u>	<u>232,701</u>
Total current liabilities	2,078,934	1,708,371
Capital lease obligation, net of current portion	408,918	505,758
Note payable, net of current portion	<u>236,550</u>	<u>252,927</u>
Total liabilities	2,724,402	2,467,056
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Convertible preferred stock, Series B, 10% cumulative, nonvoting, no par value, \$10 stated value, optional redemption at 103%; optional shareholder conversion 2 shares for 1: 24,152 issued and outstanding	399,716	393,678
Common stock, no par value, authorized 15,000,000 shares; 3,778,898 and 3,775,898 shares issued and outstanding respectively	9,730,040	9,725,390
Additional paid-in capital	1,613,054	1,587,727
Accumulated deficit	<u>(7,952,722)</u>	<u>(7,882,016)</u>
	<u>3,790,088</u>	<u>3,824,779</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 6,514,490</u>	<u>\$ 6,291,835</u>

The accompanying notes are an integral part of these financial statements.

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(UNAUDITED)

	<u>2011</u>	<u>2010</u>
PRODUCT REVENUE	\$ 2,312,298	\$ 2,002,599
CONTRACT RESEARCH REVENUE	205,336	238,513
	<u>2,517,634</u>	<u>2,241,112</u>
COST OF PRODUCT REVENUE	1,844,999	1,389,180
COST OF CONTRACT RESEARCH	125,097	174,230
	<u>1,970,096</u>	<u>1,563,410</u>
GROSS PROFIT	547,538	677,702
GENERAL AND ADMINISTRATIVE EXPENSE	275,894	281,230
RESEARCH AND DEVELOPMENT EXPENSE	164,639	53,256
MARKETING AND SALES EXPENSE	156,057	154,322
(LOSS) INCOME FROM OPERATIONS	<u>(49,052)</u>	<u>188,894</u>
OTHER INCOME (EXPENSE)		
Interest income	725	1,055
Interest expense	(18,566)	(21,822)
Gain on disposal of equipment	425	-
	<u>(17,416)</u>	<u>(20,767)</u>
(LOSS) INCOME BEFORE PROVISION FOR INCOME TAX	(66,468)	168,127
INCOME TAX EXPENSE	<u>(4,238)</u>	<u>(61,698)</u>
NET (LOSS) INCOME	(70,706)	106,429
DIVIDENDS ON PREFERRED STOCK	<u>(6,038)</u>	<u>(6,074)</u>
(LOSS) INCOME APPLICABLE TO COMMON SHARES	<u>\$ (76,744)</u>	<u>\$ 100,355</u>
EARNINGS PER SHARE - BASIC AND DILUTED		
(Note 6)		
(LOSS) INCOME APPLICABLE TO COMMON SHARES PER COMMON SHARE		
Basic	<u>\$ (0.02)</u>	<u>\$ 0.03</u>
Diluted	<u>\$ (0.02)</u>	<u>\$ 0.03</u>
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	<u>3,777,165</u>	<u>3,711,942</u>
Diluted	<u>3,777,165</u>	<u>3,869,583</u>

The accompanying notes are an integral part of these financial statements.

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 2011 AND 2010

(UNAUDITED)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$ (70,706)	\$ 106,429
Adjustments to reconcile net (loss) income to net cash from operating activities:		
Depreciation and accretion	125,302	119,010
Amortization	772	772
Stock based compensation	31,365	53,663
Gain on sale of equipment	(425)	-
Deferred income taxes	-	55,000
Inventory reserve	12,884	2,037
Changes in operating assets and liabilities:		
Accounts receivable	(64,057)	(225,843)
Inventories	(142,063)	(41,422)
Prepaid expenses	(381,193)	(230,067)
Other assets	(30,913)	(1,972)
Accounts payable	(143,519)	57,992
Accrued expenses and customer deposits	512,392	198,384
Net cash (used in) provided by operating activities	<u>(150,161)</u>	<u>93,983</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of equipment	425	-
Purchases of property and equipment	(56,953)	(75,086)
Net cash used in investing activities	<u>(56,528)</u>	<u>(75,086)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of common stock options	4,650	2,125
Net proceeds from exercise of common stock warrants	-	375,000
Principal payments on capital lease obligations and note payable	(113,184)	(111,206)
Net cash (used in) provided by financing activities	<u>(108,534)</u>	<u>265,919</u>
NET (DECREASE) INCREASE IN CASH	(315,223)	284,816
CASH - Beginning of period	<u>1,511,752</u>	<u>1,107,216</u>
CASH - End of period	<u>\$ 1,196,529</u>	<u>\$ 1,392,032</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the periods for:		
Interest	\$ 18,566	\$ 21,822
Income taxes	-	150
SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING ACTIVITIES		
Property and equipment purchased by capital lease	-	86,661
Increase in asset retirement obligation	1,656	1,656

The accompanying notes are an integral part of these financial statements.

SCI ENGINEERED MATERIALS, INC.
STATEMENT OF SHAREHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2011
(UNAUDITED)

	Convertible Preferred Stock, Series B	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total
Balance at January 1, 2011	\$ 393,678	\$ 9,725,390	\$ 1,587,727	\$ (7,882,016)	\$ 3,824,779
Accretion of cumulative dividends	6,038	-	(6,038)	-	-
Stock based compensation expense (Note 3)	-	-	31,365	-	31,365
Proceeds from exercise of stock options (Note 3)	-	4,650	-	-	4,650
Net loss	-	-	-	(70,706)	(70,706)
Balance at March 31, 2011	<u>\$ 399,716</u>	<u>\$ 9,730,040</u>	<u>\$ 1,613,054</u>	<u>\$ (7,952,722)</u>	<u>\$ 3,790,088</u>

The accompanying notes are an integral part of these financial statements.

SCI ENGINEERED MATERIALS, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Business Organization and Purpose

SCI Engineered Materials, Inc. (“SCI”, or the “Company”), formerly Superconductive Components, Inc., an Ohio corporation, was incorporated in 1987. The Company operates in the physical vapor deposition industry in which it develops, commercializes technologies, and manufactures ceramics and metals for advanced applications in: Photonics, Solar, Thin Film Battery, Semiconductor, and, to a lesser extent High Temperature Superconductor (“HTS”) materials. Photonics currently represents the Company’s largest market. Solar is an industry that is exhibiting rapid growth. Thin Film Battery is a developing market where manufacturers of batteries use the Company’s products to produce very small power supplies with small quantities of stored energy. Semiconductor is a developing market for the Company.

Note 2. Summary of Significant Accounting Policies

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for fair presentation of the results of operations for the periods presented have been included. The financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2010. Interim results are not necessarily indicative of results for the full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3. Common Stock and Stock Options

Stock Based Compensation - Compensation cost for all stock-based awards is based on the grant date fair value and recognized over the required service (vesting) period. Non cash stock based compensation expense was \$31,365 and \$53,663 for the three months ended March 31, 2011 and 2010, respectively. Unrecognized compensation expense was \$693,478 as of March 31, 2011 and will be recognized through 2017. There was no tax benefit recorded for this compensation cost as the expense primarily relates to incentive stock options that do not qualify for a tax deduction until, and only if, a qualifying disposition occurs.

During the three months ended March 31, 2011, a total of 3,000 stock options were exercised at a price of \$1.55. The total cash proceeds were \$4,650.

**SCI ENGINEERED MATERIALS, INC.
NOTES TO FINANCIAL STATEMENTS**

Note 3. Common Stock and Stock Options (continued)

The cumulative status of options granted and outstanding at March 31, 2011, and December 31, 2010, as well as options which became exercisable in connection with the Stock Option Plans is summarized as follows:

Employee Stock Options

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2010	796,250	\$ 4.31
Granted	-	-
Exercised	(11,000)	1.55
Expired	(1,500)	2.88
Outstanding at December 31, 2010	783,750	\$ 4.35
Granted	-	-
Exercised	(3,000)	1.55
Expired	(25,000)	1.88
Outstanding at March 31, 2011	755,750	\$ 4.44
Shares exercisable at December 31, 2010	411,800	\$ 2.94
Shares exercisable at March 31, 2011	428,800	\$ 3.34

Non-Employee Director Stock Options

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2010	319,500	\$ 3.52
Granted	-	-
Exercised	(1,000)	2.13
Expired	(36,000)	2.97
Forfeited	-	-
Outstanding at December 31, 2010	282,500	\$ 3.60
Granted	-	-
Exercised	-	-
Expired	-	-
Forfeited	-	-
Outstanding at March 31, 2011	282,500	\$ 3.60
Shares exercisable at December 31, 2010	252,500	\$ 3.31
Shares exercisable at March 31, 2011	282,500	\$ 3.60

SCI ENGINEERED MATERIALS, INC.
NOTES TO FINANCIAL STATEMENTS

Note 3. Common Stock and Stock Options (continued)

Exercise prices for options ranged from \$1.00 to \$6.00 at March 31, 2011. The weighted average option price for all options outstanding was \$4.21 with a weighted average remaining contractual life of 5.0 years.

Note 4. Preferred Stock

On February 21, 2011 the Board of Directors voted to authorize the payment of a cash dividend in the amount of \$24,152 on convertible preferred stock, Series B, to shareholders of record as of December 31, 2010. This payment is expected to be disbursed during June 2011. Dividends on the Series B preferred stock accrue at 10% annually on the outstanding shares. Accrued dividends on the Series B preferred stock were \$6,038 and \$6,074 for the three months ended March 31, 2011 and 2010, respectively.

Note 5. Inventories

Inventories consist of the following:

	<u>March 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	(unaudited)	
Raw materials	\$ 329,627	\$ 338,971
Work-in-process	862,320	866,853
Finished goods	344,542	188,602
Inventory reserve	(62,884)	(50,000)
	<u>\$ 1,473,605</u>	<u>\$ 1,344,426</u>

SCI ENGINEERED MATERIALS, INC.
NOTES TO FINANCIAL STATEMENTS

Note 6. Earnings Per Share

Basic income (loss) per share is calculated as income (loss) available to common stockholders divided by the weighted average of common shares outstanding. Diluted earnings per share is calculated as diluted income available to common stockholders divided by the diluted weighted average number of common shares. Diluted weighted average number of common shares gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. Diluted earnings per share exclude all diluted potential shares if their effect is anti-dilutive. For the three months ended March 31, 2011 all (148,476) common stock options were anti-dilutive due to the net loss. The following is provided to reconcile the earnings per share calculations:

	Three months ended March 31,	
	2011	2010
(Loss) income applicable to common shares	\$ (76,744)	\$ 100,355
Weighted average common shares outstanding – basic	3,777,165	3,711,942
Effect of dilutions -options	-	157,641
Weighted average shares outstanding –diluted	3,777,165	3,869,583

Note 7. Notes Payable

On January 6, 2011, the Company issued a Promissory Note (the “Promissory Note”) in the amount of not more than \$840,000 to The Huntington National Bank, as Lender. The Promissory Note is collateralized by the Company’s inventories, equipment and accounts receivable. As of March 31, 2011 there was no outstanding balance on the Promissory Note.

Among other items, the Promissory Note provides for the following:

- Interest is subject to change from time to time based on changes in an independent index (LIBOR). The index at the inception of the Promissory Note was 0.261% per annum. The interest rate to be applied to the unpaid principal balance will be at a rate of 2.75 percentage points over the index. Under no circumstance will the interest rate be less than 4.00% per annum or more than the maximum rate allowed by applicable law.
- Accrued interest is payable monthly. The outstanding principal and accrued interest matures on December 31, 2012.

SCI ENGINEERED MATERIALS, INC.
NOTES TO FINANCIAL STATEMENTS

Note 7. Notes Payable (continued)

During 2010, the Company applied and was approved for a 166 Direct Loan in the amount of \$744,250 with the Ohio Department of Development (ODOD). This loan was finalized in February of 2011. The term of the loan is 84 months at a fixed interest rate of 3%. There is also a 0.25% annual servicing fee to be charged monthly on the outstanding principal balance. The loan is to be amortized over 84 months beginning on the first day of the calendar month immediately following the first full calendar month after the initial disbursement of the loan proceeds, which is expected during the second or third quarter of 2011. The loan is collateralized by the project equipment. As of March 31, 2011 there was no outstanding balance on this loan.

During 2010, the Company also applied and was approved for a 166 Direct Loan through the Advanced Energy Program with The Ohio Air Quality Development Authority (OAQDA) for approximately \$1.4 million. This loan was finalized in February of 2011. The term of the loan is 84 months at a fixed interest rate of 3%. There is also a 0.25% annual servicing fee to be charged monthly on the outstanding principal balance. The loan is to be amortized over 84 months beginning on the first day of the calendar month immediately following the first full calendar month after the initial disbursement of the loan proceeds, which is expected during the second or third quarter of 2011. The loan is collateralized by the project equipment. As of March 31, 2011 there was no outstanding balance on this loan.

During 2006, the Company was approved for a 166 Direct Loan from the Ohio Department of Development in the amount of \$400,000. These funds were received in July of 2008 and were used for the purchase of production equipment and to reduce the Company's capital lease obligations on certain equipment. The term of the loan is 84 months at a fixed interest rate of 3%. There is also a 0.25% annual servicing fee to be charged monthly on the outstanding principal balance. The Company is making monthly servicing fee, interest and principal payments of approximately \$6,000. The loan principal balance will be fully amortized at the end of the term in August 2015. The loan is collateralized by the project equipment. As of March 31, 2011 the loan had a balance of \$301,326.

The Company has ordered approximately \$185,000 of new test equipment and expects delivery during the second quarter of 2011. It is anticipated that this equipment will be purchased through a capital lease obligation.

Note 8. Concentration Risk

At March 31, 2011 the Company had a prepaid expense of approximately \$328,000 to a supplier for the purchase of raw material. The Company is confident the supplier, with revenue of several billion dollars, will continue to deliver the raw material as agreed upon.

At March 31, 2011 the Company had an accounts receivable of approximately \$308,000 from a customer. This balance was collected in April 2011.

SCI ENGINEERED MATERIALS, INC.
NOTES TO FINANCIAL STATEMENTS

Note 9. Income Taxes

Income tax expense consists of the following:

	2011	2010
Federal – deferred	\$ -	\$ 55,000
State and local	4,238	6,698
	<u>\$ 4,238</u>	<u>\$ 61,698</u>

Note 10. Subsequent Event

On April 11, 2011, the Company issued a Promissory Note (the “Note”) to The Huntington National Bank, as Lender. The Note is collateralized by the Company’s inventories, equipment and accounts receivable. This Note matures on April 13, 2012 and replaced a note previously signed on December 21, 2010. As of March 31, 2011 there was no outstanding balance on the Note.

Among other items, the Note provides for the following:

- At no time shall the outstanding balance of the principal sum of the Note exceed the lesser of (1) \$500,000 or (2) an amount equal to the sum of 80% of Eligible Accounts plus the lesser of (A) 50% of Eligible inventory or (B) \$200,000.
- Interest on the Note is subject to change from time to time based on changes in an independent index (LIBOR). The index at the inception of the Note was 0.243% per annum. The interest rate to be applied to the unpaid principal balance during the term will be at a rate of 2.75 percentage points over the index.
- Accrued interest is payable monthly. The outstanding principal and accrued interest owed on the Note matures on April 13, 2012.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Financial Statements and Notes contained herein and with those in our Form 10-K for the year ended December 31, 2010.

Except for the historical information contained herein, the matters discussed in this Quarterly Report on Form 10-Q include 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 may not be limited to, all statements regarding our intent, belief, and expectations, such as statements concerning our future profitability and operating and growth strategy. Words such as "believe," "anticipate," "expect," "will," "may," "should," "intend," "plan," "estimate," "predict," "potential," "continue," "likely" and similar expressions are intended to identify forward-looking statements. Investors are cautioned that all forward-looking statements contained in this Quarterly Report on Form 10-Q and in other statements we make involve risks and uncertainties including, without limitation, the factors set forth under the caption "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2010, and other factors detailed from time to time in our other filings with the Securities and Exchange Commission. One or more of these factors have affected, and in the future could affect our business and financial condition and could cause actual results to differ materially from plans and projections. Although we believe the assumptions underlying the forward-looking statements contained herein are reasonable, there can be no assurance that any of the forward-looking statements included in this Quarterly Report on Form 10-Q will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved.

Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statements are made or reflect the occurrence of unanticipated events, unless necessary to prevent such statements from becoming misleading. New factors emerge from time to time and it is not possible for us to predict all factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Overview

SCI Engineered Materials, Inc. ("SCI", "we" or the "Company"), formerly Superconductive Components, Inc., an Ohio corporation, was incorporated in 1987. We operate in the physical vapor deposition industry in which we develop, commercialize technologies, and manufacture ceramics and metals for advanced applications in: Photonics, Solar, Thin Film Battery, Semiconductor, and, to a lesser extent High Temperature Superconductor ("HTS") materials. Photonics currently represents the largest market for our targets. Solar is an industry that is exhibiting rapid growth. Thin Film Battery is a developing market where manufacturers of batteries use our products to produce very small power supplies with small quantities of stored energy. Semiconductor is a developing market for us. In recent years we added to our sales staff for the purpose of focusing on opportunities for our products in the Solar industry. We also added staff to our Technology group for the development of innovative products.

Executive Summary

During the first quarter of 2011 we increased sales to core customers, continued to develop transparent conductive oxide systems for the solar industry, and added domestic and international customers for solar products. The solar industry is projected to have strong growth for the next few decades, and in addition, the Thin Film Solar (TFS) market share is expected to increase during that period. Given current market opportunities, we continue to invest in expanding production, research & development, marketing, and sales. This has resulted in trial and qualification orders that were shipped to customers in the solar industry throughout 2010 and the first quarter of 2011. This should allow us to gain market share and to be poised to receive large orders in targeted applications. The conversion of these trials into production orders represents another important step toward realization of our strategic goals which include expanding our base of solar customers globally.

During February 2011 we positioned the Company for continued growth as two loans with agencies of the State of Ohio for approximately \$2.1 million were finalized. These loans carry attractive interest rates of 3.25%. In addition, we expect to invest an additional \$900,000 in the expansion project and add approximately 50 jobs during the next three years. We have placed orders of over \$500,000 for equipment related to this project during the first quarter of 2011. In the previous three years (2008 – 2010) we invested over \$1.6 million in new equipment to increase our manufacturing capacity and advanced test equipment to position the Company to become a meaningful supplier of Zinc Oxide based Transparent Conductive Oxides (TCO) for the Thin Film Solar industry.

For the three months ended March 31, 2011, we had total revenue of \$2,517,634. This was an increase of \$276,522, or 12.3%, compared to the three months ended March 31, 2010. Product revenue increased \$309,699, or 15.5% for the three months ended March 31, 2011 from the same period in 2010. Product revenue increased due to customer demand and increased cost of a high priced raw material. During the first quarter of 2011, a customer asked us to purchase and process this raw material resulting in higher revenue compared to the first quarter of 2010. During the first quarter of 2010, this customer purchased the raw material directly and shipped it to us for processing. We also experienced a reduction in selling price from a large customer which closed its facility during the first quarter of 2011.

As mentioned, one of our large customers closed its manufacturing facility during the first quarter of 2011. We shipped approximately \$450,000 to this customer during the first quarter of 2011 versus approximately \$530,000 during the first quarter of 2010. Revenue from this customer was approximately \$1.9 million for the entire year of 2010. We expect the loss of revenue from this customer to be offset by increased sales of solar products, especially our innovative transparent conductive oxide systems for the solar industry and from core customers in other markets. The anticipated increased sales of solar products are based on revenue from new customers and current product trials being converted into production orders.

Gross profit was \$547,538 for the three months ended March 31, 2011 compared to \$677,702 for the same three months in 2010. This was a decrease of \$130,164, or 19.2%. The decrease in gross profit can be attributed to the reduction in selling price to a large customer mentioned above as well as a change in product mix and continued scale-up expenses related to transparent conductive oxide for solar applications products. Gross margin was 21.7% for the first three months of 2011 compared to 30.2% for the same period in 2010. The decrease in gross margin can be principally attributed to the increased volume of the high priced raw material which had a lower margin and was related to the change in purchasing behavior by a customer mentioned previously.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

We continue 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 and involve research & development expense beyond the scope of specific government grants and awards. Research & development expense increased 209% to \$164,639 for the first quarter 2011 from \$53,256 for the same period last year.

For the three months ended March 31, 2011, we had loss before provision for income tax of \$66,468 compared to income of \$168,127 for the three months ended March 31, 2010. We had loss applicable to common shares of \$76,744 for the three months ended March 31, 2011 compared to income of \$100,355 for the same period in 2010. This decrease can be attributed to the decrease in gross profit previously mentioned and an increase in research and development expenses of approximately \$111,000.

RESULTS OF OPERATIONS

Three months ended March 31, 2011 (unaudited) compared to three months ended March 31, 2010 (unaudited):

Revenue

For the three months ended March 31, 2011, we had total revenue of \$2,517,634. This was an increase of \$276,522, or 12.3%, compared to the three months ended March 31, 2010. Product revenue increased \$309,699, or 15.5% for the three months ended March 31, 2011 from the same period in 2010. Product revenue increased due to customer demand and higher cost of a high priced raw material. During the first quarter of 2011, a customer asked us to purchase and process this raw material resulting in higher revenue compared to the first quarter of 2010. During the first quarter of 2010, this customer purchased the raw material directly and shipped it to us for processing. We also experienced a reduction in selling price from a large customer which closed its facility during the first quarter of 2011. Contract research revenue decreased to \$205,336 from \$238,513, or 13.9%, for the first quarter of 2011 compared to the first quarter of 2010 as one of the grants drew to a close late in 2010.

Revenue from product sales is recognized upon shipment to customers. Provisions for discounts and rework costs for returns are established when products are shipped based on historical experience. Customer deposits represent cash received in advance of revenue earned.

Revenue from contract research provided for third parties is recognized on the percentage of completion method. Contract research revenue is recognized during the period qualifying expenses are incurred for the research that is performed as set forth under the terms of the grant award agreements.

Gross Profit/Margin

Gross profit was \$547,538 for the three months ended March 31, 2011 compared to \$677,702 for the same three months in 2010. This was a decrease of \$130,164, or 19.2%. The decrease in gross profit can be attributed to the reduction in selling price to a large customer mentioned above as well as a change in product mix and continued scale-up expenses related to transparent conductive oxide for solar applications products. Gross margin was 21.7% for the first three months of 2011 compared to 30.2% for the same period in 2010. The decrease in gross margin can be attributed to the increased volume of the high priced raw material which had a lower margin and was related to the change in purchasing behavior by a customer mentioned previously.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

General and Administrative Expense

General and administrative expense for the three months ended March 31, 2011 decreased to \$275,894 from \$281,230 for the three months ended March 31, 2010, or 1.9%. The decrease was the result of less non-cash stock based compensation of approximately \$19,000. This was offset by an increase in professional fees of approximately \$15,000.

Professional Fees

Included in General and Administrative expense was \$60,565 and \$45,074 for professional fees for the three months ended March 31, 2011 and 2010, respectively. The increase was due to continued expense related to SEC compliance costs for legal, accounting and stockholder relations fees.

Research and Development Expense

Research and development expense for the three months ended March 31, 2011 was \$164,639 compared to \$53,256 for the same period in 2010, an increase of 209.1%. We continue to develop innovative transparent conductive oxide systems to further align our activities with customer needs, as well as trial orders which resulted in increased research and development expense. These new research and development endeavors have moved us beyond the scope of our current federal and state grants and awards.

Marketing and Sales Expense

Marketing and Sales expense for the three months ended March 31, 2011 increased 1.1% to \$156,057 from \$154,322 for the same period in 2010. The slight increase was due to an international trade show expense of approximately \$30,000. This same international trade show took place during the second quarter of 2010. This expense was partially offset by less expense related to other travel of approximately \$13,000 and reduced commissions to our outside manufacturing sales representatives of approximately \$12,000.

Stock Compensation Expense

Included in operating expenses were non cash stock based compensation costs of \$30,037 and \$48,586 for the three months ended March 31, 2011 and 2010, respectively. Compensation cost for all stock-based awards is based on the grant date fair value and recognized over the required service (vesting) period. Unrecognized non cash stock based compensation expense was \$693,478 as of March 31, 2011 and will be recognized through 2017.

Interest Expense

Interest expense was \$18,566 and \$21,822 for the three months ended March 31, 2011 and 2010, respectively. The decrease was due to the maturity of some capital leases plus more principal and less interest being applied to ongoing capital lease payments.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)*Income Tax Expense*

Income tax expense for the three months ended March 31, 2011 and 2010 was \$4,238 and \$61,698 respectively. We had deferred taxes of \$156,000 and \$101,000 at March 31, 2011 and 2010, respectively. We record a valuation allowance against our deferred tax asset to an amount that is more likely than not to be realized. We have considered future taxable income and used ongoing prudent and feasible tax planning strategies in assessing the need for valuation allowances. If we were to determine that we would be able to realize deferred tax assets in the future in excess of the recorded amount, an adjustment to the deferred tax asset would increase income in the period that such determination was made. Likewise, should we determine that we would not be able to realize all or part of the deferred tax asset in the future, an adjustment to the deferred tax asset would decrease income in the period such determination was made. We regularly evaluate the need for a valuation allowance against our deferred tax asset.

(Loss)/Income Applicable to Common Shares

Loss applicable to common shares was (\$76,744) for the three months ended March 31, 2011 compared to income of \$100,355 for the three months ended March 31, 2010. This decrease can be attributed to the decrease in gross profit previously mentioned and an increase in research and development expenses of approximately \$111,000.

Common Shares

The following schedule represents our outstanding common shares during the period of 2011 through 2019 assuming all outstanding stock options are exercised during the year of expiration. If each shareholder exercises his or her options, it would increase our common shares by 1,038,250 to 4,817,148 by December 31, 2019. Assuming all such options are exercised in the year of expiration, the effect on shares outstanding is illustrated as follows:

	Options due to expire	Potential shares outstanding	Weighted average exercise price
2011	37,500	3,816,398	\$ 1.54
2012	155,000	3,971,398	\$ 1.55
2013	30,250	4,001,648	\$ 1.00
2014	180,000	4,181,648	\$ 4.36
2015	140,000	4,321,648	\$ 2.97
2016	36,000	4,357,648	\$ 3.25
2017	-	4,357,648	-
2018	9,500	4,367,148	\$ 3.10
2019	450,000	4,817,148	\$ 6.00

Liquidity and Capital Resources

Cash

As of March 31, 2011, cash on-hand was \$1,196,529.

Working Capital

At March 31, 2011, working capital was \$1,925,836 compared to \$2,037,193 at December 31, 2010, a decrease of \$111,357, or 5.5%. Cash decreased approximately \$315,000. Accounts receivable increased approximately \$64,000 and we had a receivable from a customer of over \$300,000 at March 31, 2011 which was collected in April of 2011. Inventories increased approximately \$129,000 and prepaid expenses related to customer deposits and equipment purchases increased approximately \$381,000. Accounts payable decreased approximately \$144,000 as large inventories received in December of 2010 were paid for in the first quarter of 2011. Customer deposits increased approximately \$483,000 during the first quarter of 2011 for expected shipments during the first half of 2011.

Cash from Operations

Net cash used in operating activities was approximately \$150,000 during the three months ended March 31, 2011. In addition to the changes in various current assets and liabilities mentioned above, non cash expenses for depreciation, accretion and amortization increased to approximately \$126,000 during the first three months of 2011 from approximately \$120,000 during the first three months of 2010, an increase of 5.3%. This increase is related to the purchase of additional machinery and equipment. Included in expenses were non cash stock based compensation costs of \$31,365 and \$53,663 for the three months ended March 31, 2011 and 2010, respectively. Net cash provided by operating activities was approximately \$94,000 during the three months ended March 31, 2010.

Cash from Investing Activities

Cash of approximately \$57,000 and \$75,000 was used for investing activities for the three months ended March 31, 2011 and 2010, respectively. The amounts invested were used to purchase machinery and equipment for increased production capacity and new product lines.

Cash from Financing Activities

Cash of approximately \$109,000 was used in financing activities for the three months ended March 31, 2011. Principal payments to third parties for capital lease obligations and a note payable approximated \$113,000. Proceeds received from the exercise of common stock options were \$4,650. We have placed orders of more than \$500,000 for new equipment related to our continued growth. The equipment is expected to be received during the second quarter of 2011.

Cash of approximately \$266,000 was provided by financing activities during the three months ended March 31, 2010. Principal payments to third parties for capital lease obligations and a note payable approximated \$111,000. Proceeds received from the exercise of common stock warrants were \$375,000. Proceeds received from the exercise of common stock options were \$2,125. We incurred new capital lease obligations of approximately \$87,000 for new production equipment during the first quarter of 2010.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Debt Facilities

We have the ability to draw on a Revolving Note from The Huntington National Bank. The principal amount of the Revolving Note is \$500,000. As of March 31, 2011 there was no outstanding balance on the Revolving Note.

We have the ability to draw on a Promissory Note from The Huntington National Bank. The principal amount of the Note is \$840,000. As of March 31, 2011 there was no outstanding balance on the Promissory Note.

Closing documents were signed in February 2011 for a 166 Direct Loan in the amount of \$744,250 with the Ohio Department of Development (ODOD). ODOD also recommended that the Ohio Tax Credit Authority approve a tax credit equal to 45 percent of employee income tax withholdings resulting from the project for five years. This credit has an estimated value of \$86,000 during the entire term. ODOD also is prepared to offer funding from the Rapid Outreach Grant for up to \$25,000 for costs associated with the acquisition and installation of machinery and equipment.

Closing documents were also signed in February 2011 for a 166 Direct Loan through the Advanced Energy Program with The Ohio Air Quality Development Authority (OAQDA) for approximately \$1.4 million. The OAQDA and ODOD loans can fund approximately 70% of the current capital requirements of approximately \$3 million to support our planned growth.

Debt Outstanding

Total debt outstanding decreased during the three months ended March 31, 2011 from approximately \$1,223,000 to \$1,110,000, or 9.2%. We paid cash of approximately \$113,000 towards capital lease obligations during the first quarter of 2011.

Government Grants and Contracts

During the fourth quarter of 2009 we were notified we had been awarded a grant in the amount of \$775,400 by the Ohio Department of Development's Third Frontier Photovoltaic Program (TFPVP) to commercialize advanced technology for high power density rotatable ceramic sputtering targets. These targets are used in the manufacture of thin film photovoltaics. This technology will enable manufacturers to operate rotatable sputtering targets at higher power densities than current technology. The approval of the grant was received during January 2010 and the work on the contract commenced in the first quarter of 2010. Total expenditures for the project through March 31, 2011 were \$234,260. Revenue totaled \$58,173 during the first quarter of 2011 compared to \$5,725 in the first quarter of 2010. The work on the contract is expected to continue through the first quarter of 2012.

During the third quarter of 2009 we received notification from the Department of Energy (DOE) of an Assistance Agreement in the amount of approximately \$650,000. This grant provides support for Phase II of a Small Business Innovation Research (SBIR) award entitled "Homogenous BSCCO-2212 Round Wires for Very High Field Magnet Applications." Total revenue of the project through March 31, 2011 was \$448,673. Revenue was \$97,726 for the three months ended March 31, 2011 compared to \$55,721 for the same period in 2010. The work on the contract is expected to continue through the third quarter of 2011.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

We received notification during the fourth quarter of 2008 from the Ohio Department of Development's Third Frontier Advanced Energy Program (TFAEP) of an award in the amount of \$708,715. This grant provided support to commercialize technologies for the manufacture of rotatable ceramic sputtering targets for the production of transparent conductive oxide-coated glass used in manufacturing thin film photovoltaic solar cell panels. The work on the contract began in January of 2009 and was completed late in 2010. Revenue was \$114,854 for the three months ended March 31, 2010.

During the third quarter of 2008 we received notification from the Department of Energy of a Notice of Financial Assistance Award in the amount of approximately \$750,000. This grant provides support for Phase II of a Small Business Innovation Research (SBIR) award entitled "Flux Pinning Additions to Increase Jc Performance in BSCCO-2212 Round Wire for Very High Field Magnets." Total revenue of the project through March 31, 2011 was \$739,356. Revenue was \$49,437 during the first three months of 2011 and \$60,346 for the first three months of 2010. The work on the contract began during the third quarter of 2008 and is expected to be completed during the second quarter of 2011.

The granting agency may suspend or terminate the award in whole or in part if we fail to materially comply with the terms and conditions. We expect to complete each award while complying with the terms and conditions.

Off Balance Sheet Arrangements

We have no off balance sheet arrangements including special purpose entities.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make judgments, assumptions and estimates that affect the amounts reported in the Financial Statements and accompanying notes. Note 2 to the Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010 describes the significant accounting policies and methods used in the preparation of the Financial Statements. Estimates are used for, but not limited to, accounting for the allowance for doubtful accounts, inventory allowances, property and equipment depreciable lives, patents and licenses useful lives, and assessing changes in which impairment of certain long-lived assets may occur. Actual results could differ from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the Financial Statements. The allowance for doubtful accounts is based on our assessment of the collectability of specific customer accounts and the aging of the accounts receivable. If there is a deterioration of a major customer's credit worthiness or actual defaults are higher than our historical experience, our estimates of the recoverability of amounts due us could be adversely affected. Inventory purchases and commitments are based upon future demand forecasts. If there is a sudden and significant decrease in demand for our products or there is a higher risk of inventory obsolescence because of rapidly changing technology and customer requirements, we may be required to increase our inventory allowances and our gross margin could be adversely affected. Depreciable and useful lives estimated for property and equipment, licenses and patents are based on initial expectations of the period of time these assets and intangibles will benefit us. Changes in circumstances related to a change in our business, change in technology or other factors could result in these assets becoming impaired, which could adversely affect the value of these assets.

Item 4. Controls and Procedures**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Due to a segregation of duties material weakness described below, and based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that as of March 31, 2011, the Company's disclosure controls and procedures were not effective, at the reasonable assurance level, in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act and in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Accounting Officer, as appropriate to allow timely discussions regarding required disclosure. Until we are able to hire additional employees, we will continue to report to the Audit Committee and the Board of Directors at least monthly (and more often as necessary). We believe this will continue to mitigate this weakness. This reporting includes balance sheets, statements of operations, statements of cash flows, and other detail supporting these statements. Accordingly, we believe that the financial statements included in this report fairly present, in all material respects, our financial condition, results of operation, changes in shareholder's equity and cash flows for all periods presented.

Inherent Limitations over Internal Controls

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements.

Management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods is subject to the risk that those internal controls may become inadequate because of changes in business conditions or that the degree of compliance with the policies or procedures may deteriorate.

Item 4. Controls and Procedures (continued)

Management previously disclosed a material weakness in internal control over financial reporting in its annual report on Form 10-K, filed on February 28, 2011 for the year ended December 31, 2010, relating to insufficient segregation of duties consistent with control objectives. Management is aware of the risks associated with the lack of segregation of duties due to the small number of employees currently working with general administrative and financial matters. Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, the initiation of transactions, the custody of assets and the recording of transactions shall be performed by separate individuals. In order to remediate this weakness, we will need to hire additional employees. Although we will periodically reevaluate this situation, at this point we consider that the risks associated with such lack of segregation of duties and the potential benefits of adding employees to segregate such duties are not cost justified. Until we are able to hire additional employees, we will continue to report to the Audit Committee and the Board of Directors at least monthly (and more often as necessary). We believe this will continue to mitigate this weakness. This reporting includes balance sheets, statements of operations, statements of cash flows, and other detail supporting these statements.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal controls over financial reporting for the three months ended March 31, 2011 that materially affected or were reasonably likely to materially affect our disclosure controls and procedures. Additionally, there were no changes in our internal controls that could materially affect our disclosure controls and procedures subsequent to the date of their evaluation. As a result, no corrective actions were required or undertaken.

Part II. Other Information

- Item 6. Exhibits.**
- 3(a) Certificate of Second Amended and Restated Articles of Incorporation of Superconductive Components, Inc. (Incorporated by reference to Exhibit 3(a) to the Company's initial Form 10-SB, filed on September 28, 2000)
- 3(b) Restated Code of Regulations of Superconductive Components, Inc. (Incorporated by reference to Exhibit 3(b) to the Company's initial Form 10-SB, filed on September 28, 2000)
- 3(c) Amendment to Articles of Incorporation recording the change of the corporate name to SCI Engineered Materials, Inc. (Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-QSB filed November 7, 2007).
- 10.1 Description of notification by large customer that orders will be reduced in 2011 due to manufacturing plant closing (Incorporated by reference to the Company's Current Report on Form 8-K, dated January 27, 2011).
- 31.1 Rule 13a-14(a) Certification of Principal Executive Officer.*
- 31.2 Rule 13a-14(a) Certification of Principal Financial Officer.*
- 32.1 Section 1350 Certification of Principal Executive Officer and Certification of Principal Financial Officer and Principal Accounting Officer.*
- 99.1 Press Release dated May 5, 2011, entitled "SCI Engineered Materials, Inc. Reports First Quarter 2011 Results."
- * Filed with this report

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SCI ENGINEERED MATERIALS, INC.

Date: May 5, 2011

/s/ Daniel Rooney

Daniel Rooney, Chairman of the Board of
Directors, President and Chief Executive Officer
(Principal Executive Officer)

/s/ Gerald S. Blaskie

Gerald S. Blaskie, Vice President and Chief
Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Daniel Rooney, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SCI Engineered Materials, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2011

/s/ Daniel Rooney

Daniel Rooney
Chairman of the Board of Directors,
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Gerald S. Blaskie, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SCI Engineered Materials, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2011

/s/ Gerald S. Blaskie

Gerald S. Blaskie
Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting
Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SCI Engineered Materials, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel Rooney, Chairman of the Board of Directors, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Daniel Rooney

Daniel Rooney
Chairman of the Board of Directors,
President and Chief Executive Officer of
SCI Engineered Materials, Inc.
(Principal Executive Officer)
May 5, 2011

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SCI Engineered Materials, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gerald S. Blaskie, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Gerald S. Blaskie

Gerald S. Blaskie
Vice President and Chief Financial Officer of
SCI Engineered Materials, Inc. (Principal Financial
Officer and Principal Accounting Officer)
May 5, 2011
