

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

Form 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended December 31, 2003

Commission File Number: 0-31641

SUPERCONDUCTIVE COMPONENTS, INC.

(Name of small business issuer in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

31-0121318
(I.R.S. Employer
Identification No.)

2839 Charter Street
Columbus, Ohio 43228
(Address of principal executive offices,
including zip code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, without par value
(Title of Class)

Check 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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days.

Yes No

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B contained in this form, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. []

The issuer's revenues for the fiscal year ended December 31, 2003, were \$2,268,488.

The aggregate market value of the Registrant's common equity held by non-affiliates of the Registrant was approximately \$285,837 on March 17, 2004.

There were 1,824,756 shares of the Registrant's Common Stock outstanding on March 17, 2004.

Transitional Small Business Disclosure Format (check one): Yes No

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for the 2004 Annual Meeting of Stockholders are incorporated by reference in Part III.

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Note Regarding Forward-Looking Statements

This Annual Report on Form 10-KSB contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 26A of the Securities Act of 1933, as amended. The words “anticipate,” “believe,” “expect,” “estimate,” and “project” and similar words and expressions identify forward-looking statements, which speak only as of the date hereof. Investors are cautioned that such statements involve risks and uncertainties that could cause actual results to differ materially from historical or anticipated results due to many factors, including, but not limited to, the factors discussed in “Description of Business – Risk Factors.” The Company undertakes no obligation to publicly update or revise any forward-looking statements.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Introduction

Superconductive Components, Inc. ("SCI" or the "Company"), an Ohio corporation, was incorporated on May 29, 1987, to develop, manufacture and market products based on or incorporating high temperature superconductive ("HTS") materials. HTS materials are complex metal oxides – ceramics - of certain stoichiometries (chemical mixture ratios), which exhibit superconducting phenomena when cooled to at least – 196(degree) Centigrade. These complex metal oxides are identified as members of the Perovskite family of ceramic materials. Perovskites are a large family of crystalline ceramics that derive their name from the perovskite mineral. The perovskite minerals are the most abundant minerals on earth and have approximately a 2:3 metal-to-oxygen ratio. Copper-oxide superconductors are layered perovskites.

The company presents itself to the market as SCI Engineered Materials an operating unit of Superconductive Components Inc. The change to a single operating unit was made to more effectively utilize the company's resources. The company controls the manufacturing process and measures performance in terms of sales, in two categories, Ceramics and Metals, as the products sold are easily separable into these categories. The performance measurements made in these two categories are, however, not conducive to segment reporting as there are many shared operating expenses relating to the production of both Ceramic and Metals that cannot be attributed solely to one or the other.

History of the Company

The Company was founded in 1987 by Dr. Edward R. Funk and his wife Ingeborg Funk to develop, manufacture, and market High Temperature Superconductive materials (HTS materials) including sputtering targets and ceramic powders for commercial applications of the newly-discovered superconducting ceramics. HTS materials are complex metal oxides – ceramics – of certain stoichiometries (chemical mixture ratios), which exhibit superconducting phenomena when cooled to at least –196 (degree) Centigrade. These complex metal oxides are identified as members of the Perovskite family of ceramic materials. Perovskites are a large family of crystalline ceramics that derive their name from the perovskite mineral. The perovskite minerals are the most abundant minerals on earth and approximately a 2:3 metal-to-oxygen ratio. Copper-oxide superconductors are layered perovskites. The Company's initial efforts were directed toward mastering the manufacturing process for making high temperature superconducting ceramic powders. During this period, the market for high temperature superconductors was very small, estimated at \$1 million a year or less, consisting primarily of demonstration kits and small amounts of HTS powder for research purposes. Sales, though relatively small, covered a wide range of superconducting products, including ceramic powders. The Company sold ceramic powders as finished products and in other forms such as pressed pills or pellets, which were achieved by sintering the ceramic powders, and solid shapes. Products sold in such forms were used primarily in research applications.

Subsequently, the Company began to develop other forms of HTS materials. The Company began to focus on the market for superconducting thin-film materials, made from the Company's sputtering targets. A sputtering target is a metal, alloy or sintered ceramic. The targets are specially sized to fit into a special coating device called a sputtering system, in general the sputtering targets are rectangular or cylindrical in geometry.

These HTS Physical Vapor Deposition materials are used by customers of the Company in a vapor deposition process to make thin films of the source materials. This process operates in vacuum, hence, the frequently heard term, vacuum deposition or Physical Vapor Deposition (PVD). HTS thin films are then patterned, using techniques similar to those in the semiconductor industry, to manufacture sensors, circuits and other devices, which in turn can be used in medical diagnostics, geological exploration, advanced radar, wireless communication and other niche applications.

Despite our efforts, a broad market for HTS had not developed and therefore, in 1992 the Company established the TMI Division and began marketing sputtering targets of materials other than HTS materials for thin film deposition. This division was located within the headquarters of the Company in Columbus, Ohio and shared facilities and staff with the SCI Division. In 2002 the Company abandoned the separate TMI Division designation and combined its marketing efforts with SCI Engineered Materials as a single operating unit of Superconductive Components Inc. The purpose of the reorganization was to develop a more market driven

business focused in 3 primary areas: High Temperature Superconductive Materials, Photonic/Optical Coating and Thin Film Battery materials. These three market areas are connected in that the applications use Physical Vapor Deposition (PVD) as a manufacturing technique to produce their products. The company now sells over 80% of its products into PVD applications. In the near term the company sees this percentage growing to 90%.

During early 2002 Mr. Daniel Rooney was brought in as the President and Chief Executive Officer of the Company as successor management to Dr. Funk. In December 2002 Dr. Edward Funk, Chairman of the Board, passed away from complications associated with cancer. In January 2003, Mr. Rooney succeeded Dr. Funk as Chairman of the Company.

Business:

The company views its business as supplying ceramic and metal materials to a variety of industrial applications including: HTS, Photonics/Optical, Thin Film Batteries and Fuel Cells.

The production and sale of High Temperature Superconducting (HTS) materials was the initial focus of the company's operations and these materials continue to be a significant part of the Company's development efforts. The Company is a subcontractor to Oxford Instrument's Superconducting Technology Division Department of Energy Superconductivity Partnership Initiative; this government-funded program will put HTS magnets into an operating magnetic resonance imaging unit (MRI) during 2005. MRI's are currently the largest application for Low Temperature Superconducting Wire. The Company continues to work with private companies and government agencies to develop new and improved products for future applications.

Optical/Photonics currently represents the Company's largest market for its materials. The Company's customers are continually identifying new materials that improve the utility of optical coating, including improvements in their ability to focus or filter light or coatings that improve wear and chemical attack resistance, all of which increases the potential demand for the types and amounts of materials we sell in this market. Photonic applications continue to expand as new methods are found to manipulate light waves to enhance the various properties of light the device manufacturers are seeking.

Thin Film Battery materials is a developing market where manufacturers of batteries use these materials to produce very small power supplies, with small quantities of stored energy. A typical Thin Film Battery would be produced via PVD with five (5) or more thin layers. These batteries are often one (1) centimeter square but only fifteen (15) microns thick. Potential applications for these batteries include but are not limited to: active RFID tags, battery on chip, portable electronics, and medical implant devices.

The Company had total annual revenues of \$2,268,488, \$2,958,544 and \$3,663,488 in the fiscal years ended December 31, 2003, 2002 and 2001, respectively.

Principle suppliers to the Company in 2003 were Lattice Materials Corporation, Williams Advanced Materials and Standard Resources. In every case, the Company believes that suitable substitute vendors can be found. Also, as the Company's volume grows, the Company may make alliances or purchasing contracts with these or other vendors

The Company's largest customer represented over 10% percent of total revenues in 2003. The Company had \$246,835 and \$254,462 in government contracts for the years ending December 31, 2003 and 2002, respectively, representing 10.9% and 8.6% of total revenues in 2003 and 2002, respectively.

Marketing and Sales

Most of the Company's orders are in response to requests for quotations. The Company distributes a catalogue of its products and exhibits at several relevant tradeshows. The Company's catalogue lists 208 products. The Company also has an operating website www.sciengineeredmaterials.com. The Company has intensified its marketing efforts by increasing the number of manufacturing representatives representing the Company in 2003. In addition, a sales manager was added to the organization on January 1, 2004.

The Company uses various distribution channels to reach end user markets including: direct sales, manufacturers representatives and internationally through distributors. The internet provides

tremendous reach for new customers to be able to identify the Company as a source of their product needs. In 2003 the company sold product to 363 customers.

Ceramics

The Company is capable of producing ceramic powders via several different processing routes including solid state, precipitation and combustion synthesis. Ceramic Targets can also be produced in a variety of ways depending on the end user applications. Production routes include sintering, hot and cold isostatic pressing and hot pressing.

Most of the Company's products are manufactured from component chemicals and metals supplied by various vendors. Production of HTS is dependent upon high purity Yttrium to manufacture its superconducting products. Several suppliers currently satisfy the Company's requirements for this material. If the Company suddenly lost the services of such suppliers, there could be a disruption in its manufacturing process until the suppliers were replaced, but the Company has identified several other firms as potential back-up suppliers who would be capable of supplying this material to the Company as necessary. To date, the Company has not experienced an interruption of raw material supplies. Ceramic shipments were 60.2% and 35.5% of product revenues in 2003 and 2002, respectively.

Metals

In addition to the ceramic targets mentioned above the Company produces metal sputtering targets, and backing plates and bonds the targets to the backing plates for application in the Physical Vapor Deposition Industry. These targets can be produced by casting, hot pressing and machining of metals and metal alloys depending on the application.

Applications for metal targets are highly varied from applying decorative coatings for end uses such as sink faucets to the production of various electronic and photonic products.

The Company purchases various metals of reasonably high purity for its applications; the company is not dependent on a single source for these metals and does not believe losing a vendor would materially affect the business.

The Company has continually added production processes and testing equipment for the many product compositions that can be used as Physical Vapor Deposition materials. Metal shipments were 39.8% and 64.5% of product revenues in 2003 and 2002, respectively.

Competition

The Company has a number of domestic and international competitors in both the ceramics and metals fields, many of which have resources far in excess of the Company's resources. With respect to ceramics specifically, Cerac provides both powders and thin film deposition products. Kurt Lesker is another supplier of targets and Dow Chemicals of Japan supplies HTS materials. With regard to metals, Tosoh, Pure Tech, Kurt Lesker and Plasmaterials are competing suppliers of these materials.

Research and Development

The Company focuses its research and development efforts in areas that build on its expertise in multi-component ceramic oxides. These efforts currently include optimization and scale up efforts for BSCCO 2-2-1-2 powders.

During 2003 the Company successfully completed the development work on a Department of Energy SBIR Phase I sponsored project for optimizing BSCCO 2-2-1-2 ceramic powders for using in the production of long length HTS wires for high energy physics applications and spin-off potential for medical MRI imaging. The success of the project enabled the Company to obtain a \$600,000 Phase II grant for pre-commercialization process development of the powder production process. The Company's partners in this two-year effort are Oxford Superconducting Technologies and Los Alamos National Lab.

The Company also continued to be a subcontractor to Oxford Superconducting Technology for a SPI from the Department of Energy. At present, the Company has completed 90% of its assigned tasks and

remains on schedule. This program will ultimately put HTS materials in Siemens Magnetic Resonance Imaging (MRI) equipment. The program started in 2002 and will not be completed until 2005.

All of the sponsored research and development contracts can be cancelled at the sponsor's option, with accrued costs being paid. The Company currently has \$390,055 of funding from government sponsored research and development programs that could be cancelled at any time.

The Company intends to continue to seek such funding because this funding maintains and expands the technical understanding within the Company.

The Company has certain proprietary knowledge and trade secrets related to the manufacture of ceramic oxide Physical Vapor Deposition materials.

The Company focuses its research and development efforts in areas that build on its expertise in multi-component ceramic oxides. These efforts currently include optimization and scale up efforts for BSCCO 2-2-1-2 powders.

During 2002 the Company completed the development work on a sponsored project BSCCO 2-2-1-2 funded by the National Science Foundation and the company also completed a project sponsored by NASA to develop a rotation/levitation apparatus for gravity modification research.

During 2002 the Company was awarded a Phase I SBIR from the Department of Energy. Purpose of the grant is to study the effects of increasing density on the current carrying capacity of long length HTS wires.

New Product Initiatives

In 2002, the Company began more actively developing and marketing its existing products for use in the Thin Film Battery and Fuel Cell production market. In addition, the Company has undertaken research and development opportunities with respect to new and innovative materials and processes to be used in connection with the production of Thin Film Batteries and Fuel Cells. Thin Film Battery materials is a developing market. Manufacturers of batteries use these materials to produce very small power supplies with small quantities of stored energy. A typical Thin Film Battery would be produced via Physical Vapor Deposition with five (5) or more thin layers. These batteries are often one (1) centimeter square but only fifteen (15) microns thick.

Presently, there are approximately five (5) manufacturers of Thin Film Batteries in the country, each in various stages of prototyping, with production capacities ranging from a few batteries to several thousand batteries per week. In addition there are several firms and research institutes conducting tests on Thin Film Batteries. Management believes this market may potentially become very large with significant growth expected during the next two (2) years. There are numerous applications for Thin Film Batteries, including, but not limited to: active RFID tags, battery on chip and portable electronics. Given the many potential uses for Thin Film Batteries, the Company anticipates that the market for materials necessary to produce Thin Film Batteries will grow in direct correlation to the Thin Film Battery market itself.

The Company currently faces some competition from other producers of materials used in connection with the manufacture of Thin Film Batteries. Our biggest competitors are Cerac and PureTech. The Company believes that it has certain competitive advantages in terms of quality, but acknowledges that it is at a disadvantage in terms of funding. The Company intends to actively market its materials to Thin Film Battery producers in the upcoming year in order to gain a strong presence in this market. The Company's President, Technical Director and Customer Service Manager are personally handling the marketing to achieve this goal.

At present, the Company has several customers for the materials it produces for Thin Film Batteries, including seven (7) domestic customers. Since we have begun producing materials for the Thin Film Battery market, we have experienced no problems securing the supplies we need to produce the materials. We do not anticipate there being supply problems in the near future. However, changes in production methods and advancing technologies could render our current products obsolete and the new production protocols may require supplies that are less available in the marketplace, which may cause a

slowing or complete halt to production as well as expanding costs which we may or may not be able to pass on to our customers.

In October of 2003, the Company and Lithchem, Inc. was awarded a \$1.2M grant from the State of Ohio's Third Frontier Action Fund to procure capital equipment required to commercialize the Company's Lithium Thin Film Battery sputtering target manufacturing process and Lithchem's process to produce raw materials for target manufacturing. In addition, three manufacturers of Lithium Thin Film Batteries have agreed to participate in the program and will provide testing and manufacturing qualification evaluations of targets produced using the commercial scale processes developed during the grant period. The term of the grant is two years and both the Company and Lithchem will have installed and qualified commercial scale manufacturing facilities by the end of the term.

Intellectual Property

The Company has received a patent for Fine-Particle Bi-Sr-Ca-Cu-O Having High Phase Purity made by a Chemical Precipitation and Low-Pressure Calcination method from the United States Patent and Trademark Office. The Company has also received a patent for a new process to join two individual strongly linked super-conductors utilizing a melt processing technique.

In the future, we may submit additional patent applications covering various applications, which have been developed by the Company. Because U.S. patent applications are maintained in secret until patents are issued, and because publications of discoveries in the scientific or patent literature tend to lag behind actual discoveries by several months, we may not be the first creator of inventions covered by issued patents or pending patent applications or the first to file patent applications for such inventions. Additionally, other parties may independently develop similar technologies, duplicate our technologies or, if patents are issued to us or rights licensed by us, design around the patented aspects of any technologies we developed or licensed.

We rely on a combination of patent and trademark law, license agreements, internal procedures and nondisclosure agreements to protect our intellectual property. Unfortunately, these may be invalidated, circumvented or challenged. In addition, the laws of some foreign countries in which our products may be produced or sold do not protect our intellectual property rights to the same extent as the laws of the United States.

Employees

The Company had 20 employees as of December 31, 2003, of which 18 were full-time employees. Of these employees one held a PhD in Material Science. The Company has never experienced work stoppage and considers its relations with employees to be good. The employees do not have a bargaining unit.

Environmental Matters

The Company handles all materials according to Federal, State and Local environmental regulations and includes Material Safety Data Sheets (MSDS) with all shipments to customers. The Company maintains a collection of MSDS sheets for all raw materials used in the manufacture of products and maintenance of equipment and insures that all personnel follow the handling instructions contained in the MSDS for each material. The Company contracts with a reputable fully permitted hazardous waste disposal company to dispose of waste materials generated by the Company.

Collections and Write-offs

The Company collected its receivables in an average of 47 days in 2003. The Company has occasionally been forced to write-off a few small invoices as uncollectible. The Company considers credit management critical to its success.

Seasonal Trends

The Company has not experienced and does not in the future expect to experience seasonal trends in its business operations.

Risk Factors

The Company desires to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. The following factors have affected or could affect the Company’s actual results and could cause such results to differ materially from those expressed in any forward-looking statements made by the Company. Investors should consider carefully the following risks and speculative factors inherent in and affecting the business of the Company and an investment in the Company’s common stock.

We have experienced significant operating losses in the past and may continue to do so in the future.

We commenced business in May of 1987. Our accumulated deficit since inception was \$6,728,313 at December 31, 2003.

We have financed the losses primarily from: (i) several private offerings of debt and equity securities; (ii) additional investments and loans by our major shareholders; and (iii) a private offering of common stock and warrants to purchase common stock in October 2000. We cannot assure you, however, that we will be able to raise additional capital in the future to fund our operations.

We have limited marketing and sales capabilities.

To successfully market our products, we must continue to develop appropriate marketing, sales, technical, customer service and distribution capabilities, or enter into agreements with third parties to provide these services. Our failure to develop these capabilities or obtain third-party agreements could adversely affect us. We have hired a full time sales manager effective January 1, 2004.

Our success depends on our ability to retain key management personnel.

Our success depends in large part on our ability to attract and retain highly qualified management, administrative, manufacturing, sales, and research and development personnel. Due to the specialized nature of our business, it may be difficult to locate and hire qualified personnel. The loss of services of one of our executive officers or other key personnel, or our failure to attract and retain other executive officers or key personnel could have a material adverse effect on our business, operating results and financial condition. Although the Company has been successful in planning for and retaining highly capable and qualified successor management in the past, there can be no assurance that it will be able to do so in the future.

We may need to seek additional capital in the future, which may reduce the value of our common stock.

The Company has incurred substantial operating losses through 2003 and numerous factors could require that the Company seek additional capital in the future. There is no assurance that new capital will be available or that it will be available on terms that will not result in substantial dilution or reduction in value of the Company’s common stock. The Company continues to lose money and will continue to do so unless the Company increases sales in the near future. As a result, additional capital may be needed in order to continue the Company’s operations.

Our competitors have far greater financial and other resources than we have.

The market for Thin Film Materials is a substantial market with significant competition in both ceramic and metal materials. While we believe that our products enjoy certain competitive advantages in design, function, quality, and availability, considerable competition exists from well-established firms such as a division of Praxair’s Surface Science Technology group as well as MCR, Johnson Matthey, Pure Tech and CERAC, all of which have more resources than we have.

In addition, a significant portion of our business is in the very competitive market for sputtering targets made of ceramics, metals, and alloys. We face substantial competition in this area from companies with far greater financial and other resources than we have. We cannot assure you that developments by others will not render our products or technologies obsolete or less competitive.

Government contracts may be terminated or suspended for noncompliance or other events beyond our control.

The government may cancel virtually all of our government contracts, which are terminable at the option of the government. While we have complied with applicable government rules and regulations and contract provisions in the past, we could fail to comply in the future. Noncompliance with government procurement regulations or contract provisions could result in the termination of government contracts. The termination of our significant government contracts or the adoption of new or modified procurement regulations or practices could adversely affect us.

Inventions conceived or actually reduced to practice under a government contract generally result in the government obtaining a royalty-free, non-exclusive license to practice the invention. Similarly, technologies developed in whole or in part at government expense generally result in the government obtaining unlimited rights to use, duplicate or disclose technical data produced under the contract. These licenses and rights may result in a loss of potential revenues or the disclosure of our proprietary information, either of which could adversely affect us.

Our revenues depend on patents and proprietary rights that may not be enforceable.

We rely on a combination of patent and trademark law, license agreements, internal procedures and nondisclosure agreements to protect our intellectual property. These may be invalidated, circumvented or challenged. In addition, the laws of some foreign countries in which our products may be produced or sold do not protect our intellectual property rights to the same extent as the laws of the United States. Our failure to protect our proprietary information could adversely affect us.

Rights we have to patents and pending patent applications may be challenged.

We have received from the United States Patent and Trademark Office a patent for Fine-Particle Bi-Sr-Ca-Cu-O Having High Phase Purity made by a Chemical Precipitation and Low-Pressure Calcination method, and have also received a patent for a new process to join two individual strongly linked superconductors utilizing a melt processing technique. In addition, in the future we may submit additional patent applications covering various applications. The patent application we filed and patent applications that we may file in the future may not result in patents being issued, and any patents issued may not afford meaningful protection against competitors with similar technology, and may be challenged by third parties. Because U.S. patent applications are maintained in secret until patents are issued, and because publications of discoveries in the scientific or patent literature tend to lag behind actual discoveries by several months, we may not be the first creator of inventions covered by issued patents or pending patent applications or the first to file patent applications for such inventions. Moreover, other parties may independently develop similar technologies, duplicate our technologies or, if patents are issued to us or rights licensed by us, design around the patented aspects of any technologies we developed or licensed. We may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine the priority of inventions, which could result in substantial costs. Litigation may also be necessary to enforce any patents held by or issued to us or to determine the scope and validity of others' proprietary rights, which could result in substantial costs.

The rapid rate of inventions and discoveries in the superconductivity field has raised many unresolved patent issues that may negatively affect our business.

The claims in granted patents often overlap and there are disputes involving rights to inventions claimed in pending patent applications. As a result, the patent situation in the high temperature superconductor field is unusually complex. It is possible that there will be patents held by third parties relating to our products or technology. We may need to acquire licenses to design around or successfully contest the validity or enforceability of those patents. It is also possible that because of the number and scope of patents pending or issued, we may be required to obtain multiple licenses in order to use a single material. If we are required to obtain multiple licenses, our costs will increase. Furthermore, licenses may not be available on commercially reasonable terms or at all. The likelihood of successfully contesting the validity or enforceability of those patents is also uncertain; and, in any event, we could incur substantial costs in defending the validity or scope of our patents or challenging the patents of others.

The rapid technological changes of our industry may adversely affect us if we do not keep pace with advancing technology.

The Thin Film Market is characterized by rapidly advancing technology. Our success depends on our ability to keep pace with advancing technology and processes and industry standards. To date, we have focused our development efforts on powders and targets. We intend to continue to develop and integrate advances in the thin film coatings industry. However, our development efforts may be rendered obsolete by research efforts and technological advances made by others, and materials other than those we currently use may prove more advantageous.

Development stage of the Company's products and uncertainty regarding development of markets.

Some of the Company's products are in the early stages of commercialization and the Company believes that it will be several years before products will have significant commercial end-use applications, and that significant additional development work may be necessary to improve the commercial feasibility and acceptance of its products. There can be no assurance that the Company will be able to commercialize any of the products currently under development.

To date, there has been no widespread commercial use of High Temperature Superconductive (HTS) products. Additionally, the market for the Thin Film Battery materials is still in its nascent stages.

The market for our common stock is limited, and as such our shareholders may have difficulty reselling their shares when desired or at attractive market prices.

Our stock price and our listing may make it more difficult for our shareholders to resell shares when desired or at attractive prices. From April 2000 until September 2001, our common stock traded on the National Quotation Bureau (the "pink sheets"). In September 2001, our stock once again began trading on The Over the Counter Bulletin Board ("OTC Bulletin Board"). Nevertheless, our common stock has continued to trade in low volumes and at low prices. Some investors view low-priced stocks as unduly speculative and therefore not appropriate candidates for investment. Many institutional investors have internal policies prohibiting the purchase or maintenance of positions in low-priced stocks. This has the effect of limiting the pool of potential purchasers of our common stock at present price levels. Shareholders may find greater percentage spreads between bid and asked prices, and more difficulty in completing transactions and higher transaction costs when buying or selling our common stock than they would if our stock were listed on a major stock exchange, such as The New York Stock Exchange or The Nasdaq National Market.

Additionally, the market prices for securities of superconductive material companies have been volatile throughout the Company's existence. Most of the companies are traded over the counter through the National Quotation Bureau or National Association of Securities Dealers Automated Quotation System. Historical trading characteristics for public companies in this industry include limited market support, low trading volume, and wide spreads (on a percentage basis) between the bid and ask prices. Announcements regarding product developments, technological advances, significant customer orders, and financial results significantly influence per share prices.

Our common stock is subject to the Securities and Exchange Commission's "penny stock" regulations, which limits the liquidity of common stock held by our shareholders.

Based on its trading price, our common stock is considered a "penny stock" for purposes of federal securities laws, and therefore is subject to regulations, which affect the ability of broker-dealers to sell the Company's securities. Broker-dealers who recommend a "penny stock" to persons (other than established customers and accredited investors) must make a special written suitability determination and receive the purchaser's written agreement to a transaction prior to sale.

As long as the penny stock regulations apply to our common stock, it may be difficult to trade such stock because compliance with the regulations can delay and/or preclude certain trading transactions. Broker-dealers may be discouraged from effecting transactions in our common stock because of the sales

practice and disclosure requirements for penny stock. This could adversely effect the liquidity and/or price of our common stock, and impede the sale of our common stock in the secondary market.

Our Articles of Incorporation authorize us to issue additional shares of stock.

We are authorized to issue up to 15,000,000 shares of common stock, which may be issued by our board of directors for such consideration, as they may consider sufficient without seeking shareholder approval. The issuance of additional shares of common stock in the future will reduce the proportionate ownership and voting power of current shareholders.

Our Articles of Incorporation authorize us to issue up to 260,000 shares of preferred stock. The issuance of preferred stock in the future could create additional securities which would have dividend and liquidation preferences prior in right to the outstanding shares of common stock. These provisions could also impede a non-negotiated change in control.

We have not paid dividends on our common stock in the past and do not expect to do so in the future.

We cannot assure you that our operations will result in sufficient revenues to enable us to operate at profitable levels or to generate positive cash flow sufficient to pay dividends. We have never paid dividends on our common shares in the past and do not expect to do so in the foreseeable future.

ITEM 2. DESCRIPTION OF PROPERTY.

The Company's current office and manufacturing facilities are located at 2839 Charter Street, Columbus, Ohio, where it occupies about 32,000 square feet. The Company moved its operations into this facility in March 2004. The Company's lease on the property expires on August 16, 2014.

The Company is current on all operating lease liabilities.

ITEM 3. LEGAL PROCEEDINGS.

There are no known legal proceedings against the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Market for Common Stock

The Company's common stock currently trades on the OTC Bulletin Board under the symbol "SCCI (OTC BB)." The following table sets forth for the periods indicated the high and low bid quotations for the Company's common stock on the National Quotation Bureau.

	<u>High</u>	<u>Low</u>
<i>Fiscal 2002</i>		
Quarter Ended March 31, 2002	\$2.00	\$0.90
Quarter Ended June 30, 2002	1.95	1.00
Quarter Ended September 30, 2002	1.05	0.50
Quarter Ended December 31, 2002	1.00	0.30
<i>Fiscal 2003</i>		
Quarter Ended March 31, 2003	1.00	0.30
Quarter Ended June 30, 2003	1.20	0.40
Quarter Ended September 30, 2003	1.50	0.40
Quarter Ended December 31, 2003	3.85	1.10

The quotations provided herein may reflect inter-dealer prices without retail mark-up, markdown, or commissions, and may not represent actual transactions.

As discussed above, at the present time, the Company's common stock trades on the OTC Bulletin Board. Based on its trading price, the Company's common stock is considered a "penny stock" for purposes of federal securities laws, and therefore is subject to certain regulations, which are summarized below.

The Securities Enforcement and Penny Stock Reform Act of 1990 requires special disclosure relating to the market for penny stocks in connection with trades in any stock defined as a "penny stock." Specifically, Rules 15g-1 through 15g-9 under the Securities Exchange Act of 1934 (the "Exchange Act") impose sales practice and disclosure requirements on NASD broker-dealers who make a market in a "penny stock." Securities and Exchange Commission regulations generally define a penny stock to be an equity security that has a market price of less than \$5.00 per share and that is not listed on The Nasdaq SmallCap Stock Market or a major stock exchange. These regulations affect the ability of broker-dealers to sell the Company's securities and also may affect the ability of purchasers of the Company's common stock to sell their shares in the secondary market.

Under the penny stock regulations, a broker-dealer selling penny stock to anyone other than an established customer or "accredited investor," generally, an individual with net worth in excess of \$1,000,000 or an annual income exceeding \$200,000, or \$300,000 together with his or her spouse, must make a special suitability determination for the purchaser and must receive the purchaser's written consent to the transaction prior to sale, unless the broker-dealer or the transaction is otherwise exempt. In addition, the penny stock regulations require the broker-dealer to deliver, prior to any transaction involving a penny stock, a disclosure schedule prepared by the Commission relating to the penny stock market, unless the broker-dealer or the transaction is otherwise exempt. A broker-dealer is also required to disclose commissions payable to the broker-dealer and the registered representative and current quotations for the

securities. Finally, a broker-dealer is required to send monthly statements disclosing recent price information with respect to the penny stock held in a customer's account and information with respect to the limited market in penny stocks.

As long as the penny stock regulations apply to the Company's stock, it may be difficult to trade such stock because compliance with the regulations can delay and/or preclude certain trading transactions. Broker-dealers may be discouraged from effecting transactions in the Company's stock because of the sales practice and disclosure requirements for penny stock. This could adversely effect the liquidity and/or price of the Company's common stock, and impede the sale of the Company's stock in the secondary market.

Holders of Record

As of December 31, 2003, there were approximately 688 holders of record of the common stock of the Company and 1,823,256 shares outstanding, and approximately 45 holders of Series B Preferred. The Company has come to have approximately 688 registered holders of common stock as a result of various unregistered exempt private offerings of its common stock since the Company's inception in 1987, including issuances of stock options to employees and to members of the Company's board of directors, and subsequent trading of the common stock on the OTC Bulletin Board and over the counter through the National Quotation Bureau. The number of holders of common stock has also increased due to conversions of Series B preferred shares into shares of common stock. There is no public market for the Series B preferred stock.

The Company's 45 Series B Preferred holders acquired their Series B Preferred Stock in a private offering by the Company that was completed in 1996. The total amount of this offering was \$700,000. The Company issued the Series B Preferred Shares in reliance on an exemption pursuant to Rule 504 of Regulation D under the Securities Act of 1933, and the offering was registered by qualification in the State of Ohio under Section 1707.09 of the Ohio Revised Code. As of December 31, 2003 there were 25,185 Series B Preferred Shares outstanding.

Dividends

The Company has never paid cash dividends on its common stock and does not expect to pay any dividends in the foreseeable future. The Company intends to retain future earnings for use in the business.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

Results of Operations

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 the Annual Report on Form 10-KSB for the year ended December 31, 2003 describes the significant accounting policies and methods used in the preparation of the Financial Statements. Estimates are used for, but not limited to, the 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 collectibility 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 provide benefit to our Company. 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.

To date, the Company has received revenue predominantly from commercial sales, government research contracts and non-government research contracts. The Company has incurred cumulative losses of \$6,728,313 from inception to December 31, 2003.

Fiscal Year 2003 As Compared to Fiscal Year 2002

Revenues

Revenues in fiscal 2003 decreased by 23.3% to \$2,268,488 from the fiscal 2002 level of \$2,958,544.

Product sales decreased to \$2,021,653 in 2003 from \$2,704,082 in 2002 or a decrease of 25.2%. The decrease in sales is a result of a reduction in sales in the Company's metal side of the business and by a reduction in a ceramic application by a customer producing solar cells. The reduction was in part due to a continuing slowing in sectors of the economy served by the Company and in certain cases changing technology.

In 2003, total contract research revenues were \$246,835 as compared to \$254,462 in 2002. Government development contract revenue was \$169,371, or 7.5% of total revenues in 2003 and \$249,677 or 8.4% of total revenues in 2002. The decrease is due to a Phase II SBIR grant from the National Science Foundation that expired in 2002. Revenues of \$184,616 from this grant are included in 2002 revenues. National Science Foundation was the Company's largest contract customer in 2002 accounting for 6.2% of the Company's revenues. Department of Energy was the Company's largest contract customer in 2003 accounting for 7.5% of the Company's revenues. Significant loss of government funding would have a material adverse effect on the Company's financial condition and results of operations.

During 2003 the Company was awarded a Phase II Small Business Innovation Research grant for \$523,612 from the Department of Energy. This award was to develop an advanced method to manufacture continuous reacted lengths of High Tc Superconductor: Bismuth Strontium Calcium Copper Oxide – 2212 Wire. This contract generated \$124,925 in revenues in 2003.

The Company was awarded a \$100,000 Phase I SBIR from the Department of Energy in 2002. This contract generated \$44,445 and \$55,555 in revenues in 2003 and 2002, respectively. This award was for the development of processes to tailor the particle size distribution of ceramic superconductor powders to improve the manufacturing of ceramic superconductor wire.

The Company became a member of a team led by Oxford Instruments Superconducting Technology that was awarded a grant from the Department of Energy Superconductivity Partnership Initiative Program. This program recognized \$77,464 and \$4,785 in revenues in 2003 and 2002, respectively. The Company's share of the grant is expected to result in \$131,736 in revenues. The purpose of this program is the scale-up of ceramic superconductor powder production to meet the future demands for ceramic superconductor wire production for the fabrication of next generation MRI equipment.

Gross Margin

Total gross margin in 2003 was \$302,656 or 13.3% of total revenue as compared to \$617,815 or 20.9% in 2002. The primary reason for the reduction is the decrease in sales. The decrease in sales is a result of a reduction in sales in the Company's metal side of the business and by a reduction in a ceramic application. The reduction was in part due to a continuing slowing in sectors of the economy served by the Company and in certain cases changing technology. In addition, there was an inventory write-down of \$133,015. This included a write-down of \$64,537 due to lower of cost or market. There was an inventory write-down of \$190,881 in 2002. Included in 2002 was a write-down of \$88,334 due to a reduction in raw material due to lower of cost or market.

Gross margin on product revenue was 17.0% in 2003 versus 29.4% in 2002, primarily due to a decrease in product sales. The decrease in sales is a result of a reduction in sales in the Company's metal side of the business and by a reduction in a ceramic application by a customer producing solar cells. Gross margin on contract research revenue was 37.5% for 2003 compared to 5.2% in 2002. The increase in gross margin on contract research revenue was due to the acquisition of equipment that was partially funded by Oxford.

Gross margins on the Company's products vary widely and are impacted from period to period by sales mix and utilization of production capacity. The Company expects that gross margins will improve as sales grow.

Inventory reserves are established for obsolete inventory, excess inventory quantities based on management's estimate of net realizable value and for lower-of-cost or market. Changes in this reserve are expensed or reduce inventory and approximated \$18,330 and \$88,334 for the years ended December 31, 2003, and 2002, respectively. Management deems the inventory reserve, after its assessment of obsolete inventory, at December 31, 2003, of \$144,453 to be adequate for excess inventory and a lower of cost-or-market analysis. The increase in the reserve for 2003 is a result of the reduction of a portion of inventory to the lower of cost-or-market method.

Selling Expense

Selling expense in fiscal 2003 increased to \$214,691 from \$210,730 in fiscal 2002, an increase of \$3,961, or 1.9%. This increase was due to the hiring of a sales consultant in 2003. This was offset primarily by a reduction in travel.

General and Administrative Expense

General and Administrative expense in fiscal 2003 decreased to \$778,758, from \$868,005 in fiscal 2002, a decrease of \$89,247, or 10.3%. The decrease in these costs was due primarily to a reduction in administrative staff and a reduction of consulting services for management assistance and for the use of production utilization consultants and implementation of their suggestions for lean manufacturing. Some of these savings were offset by expenses incurred in the initial stages for the relocation of the facilities. These expenses totaled \$40,875 in 2003.

Research and Development Expenses

Internal research and development costs are expensed as incurred. Research and development costs for 2003 were \$93,096 compared to \$43,885 in 2002, an increase of 112.1%. Internal research and development costs increased due to less contract revenue recognized which is used to offset internal labor.

Interest Expense

Interest expense was \$34,003, or 1.5% of Company revenues in fiscal 2003, up 29.1% from \$26,341 in fiscal 2002. Interest expense includes \$3,501 of accrued dividends payable to the sole shareholder of our Series A stock and \$23,206 for related party interest expense.

Loss Applicable To Common Shares

Net loss per common share based on the loss applicable to common shares was \$0.41 and \$0.24 per common share for the years ended December 31, 2003 and 2002, respectively. The loss applicable to common shares includes the net loss from operations, Series A and B preferred stock dividends and the accretion of Series A and B preferred stock. The net loss per common share from operations was \$0.39 and \$0.22, for the years ended December 31, 2003 and 2002, respectively. The difference between the net loss from operations and the loss applicable to common shares of \$(0.02) and \$(0.02), respectively, is a result of the preferred position that the preferred shareholders have in comparison to the common shareholders.

Dividends on the Series A and B preferred stock accrue at 10% annually on the outstanding shares. The 99 shares of Series A were redeemable at May 31, 2002 and the Company began accruing interest expense June 1, 2002 until the stock was exchanged for convertible promissory notes on June 30, 2003. Dividends on the Series B preferred stock totaled \$25,185 and \$27,541 for the years ended December 31, 2003 and 2002 respectively.

The accretion of Series A preferred stock represents issue costs of \$70,277 that were netted against the proceeds of Series A preferred stock. The issue costs were amortized over the payout period of seven years of income (loss) applicable to common shares and additional paid-in capital. The annual accretion totaled \$0 and \$6,469 for the years ended December 31, 2003 and 2002, respectively.

Liquidity and Working Capital

At December 31, 2003, working capital was \$171,883 compared to \$349,938 at December 31, 2002. The Company utilized cash from operations for the year ended December 31, 2003, of \$190,561. The Company provided cash from operations for the year ended December 31, 2002, of \$72. Significant non-cash items including depreciation, inventory reserve on excess and obsolete inventory, allowance for doubtful accounts and the cumulative effect of the change in accounting were approximately \$249,000 and \$320,000 for the years ended December 31, 2003 and 2002, respectively. Overall, accounts receivable, inventory, and prepaids decreased by approximately \$271,000 while there was an increase in accounts payable and accrued expenses by approximately \$23,000 for the year ended December 31, 2003. Accounts receivable, inventory, and prepaids decreased in excess of decreases in accounts payable and accrued expenses by approximately \$119,000 for the year ended December 31, 2002, as a result of timing of receipt of inventory versus required scheduled payments on this inventory and increased prepaid expenses.

For investing activities, the Company used cash of approximately \$151,000 and \$52,000 for the years ended December 31, 2003, and 2002, respectively. The amounts invested in 2003 and 2002 were used to purchase machinery and equipment for increased production capacity. Proceeds on sale of equipment totaled \$6,157 and \$36,500 for the years ended December 31, 2003 and 2002, respectively.

For financing activities for the year ended December 31, 2003, the Company provided cash of approximately \$560,000. Cash payments to third parties for capital lease obligations approximated \$40,000. Proceeds from notes payable to shareholders were \$600,000.

For financing activities for the year ended December 31, 2002, the Company used cash of approximately \$17,000. Cash payments to third parties for debt and capital lease obligations approximated \$42,000. Cash payments for accrued cumulative dividends on Series B preferred stock approximated \$25,000. Proceeds from notes payable from shareholder totaled \$50,000.

While a shareholder of the Company has advanced funds in the form of subordinated debt, accounts payable and guaranteeing bank debt in the past, there is no commitment by this individual to continue funding the Company or guaranteeing bank debt in the future. The Company will continue to seek new financing or equity financing arrangements. However, the Company cannot be certain that it will be successful in efforts to raise additional new funds.

The Company completed two private financing transactions in 2003 including (i) the issuance of convertible promissory notes in the aggregate amount of \$600,000 and 122,000 warrants to purchase shares of common stock in exchange for \$600,000 in cash and (ii) the redemption of the Company's entire \$129,770 obligation on its Series A redeemable convertible preferred stock in exchange for convertible promissory notes in the aggregate amount of \$129,770, which represented the face amount of the preferred stock plus accrued and unpaid dividends and interest, and 26,302 warrants to purchase shares of common stock. Four present shareholders invested the \$600,000 of new money in the Company. \$500,000 in cash and the redemption of the Series A redeemable preferred stock was received and recorded on June 30, 2003. \$100,000 in cash was received and recorded on July 1, 2003.

The principal and interest on the \$729,770 of new convertible promissory notes are payable June 30, 2006. If the Company completes an equity financing for at least \$500,000 prior to June 30, 2004, the notes shall automatically convert to common stock at the same per share price as the equity financing and thereafter the notes shall convert to common stock at the option of the holders at \$2.00 per share.

The Company used \$100,000 of the note proceeds to pay off its bank line of credit which terminated on June 30, 2003, and plans to use approximately \$300,000 to finance its move to a new facility and approximately \$200,000 for general corporate purposes.

Inflation

The Company believes that there has not been a significant impact from inflation on the Company's operations during the past three fiscal years.

Future Operating Results

During 2003, the Company used cash to purchase production equipment. The Company relocated its operations to a new facility in March of 2004. The relocation will provide the Company with the space to expand its production facilities and improve productivity.

The Company plans to place some of its larger purchase commitments on an annualized basis for raw materials that can be purchased in larger quantities at reduced prices. In general, the Company attempts to limit inventory price increases by making an annual commitment, and drawing the material either as required, or on a monthly or quarterly basis. Such annual commitments may reach \$500,000 in 2004 and greater in 2005 depending on sales volume increases. The terms of payment for such commitments are worked out with the vendor on a case-by-case basis, but in all cases are cancelable at the Company's discretion without penalty to the Company. The Company has committed \$512,000 towards the purchase of manufacturing equipment from the funds received from the State of Ohio Third Frontier Grant.

While the Company has approximately \$267,000 of cash on hand at year-end and received additional debt financing of \$150,000 subsequent to year-end, these funds are required to finance the company's move of its facilities in March 2004 and funding operations in first quarter 2004. Management is investigating additional equity funding from several sources to fund its operations for 2004. In March 2004 the Company received \$512,848 from the State of Ohio's Third Frontier Action Fund to begin purchasing capital equipment required to commercialize the Company's Lithium Thin Film Battery sputtering target manufacturing process. Also, in March 2004 the Company was approved by the Ohio Department of Development's Industrial Technology Enterprise Advisory Council Committee as an eligible entity for the Technology Investment Tax Credit program. The program is intended to benefit small Ohio-based research and development and technology-oriented companies. This approval permits individuals and businesses to receive state tax incentives for up to twenty-five percent of their qualified investments in the Company until September 2004. The Company plans to raise equity capital beginning in March 2004 to fund a portion of our planned growth. On March 26, 2004 the Company received a \$51,000 investment as a result of the Technology Investment Tax Credit program.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This document contains forward-looking statements that reflect the views of management with respect to future events and financial performance. These forward-looking statements are subject to certain uncertainties and other factors that could cause actual results to differ materially from such statements. See "Risk Factors" above. These uncertainties and other factors include, but are not limited to, the words "anticipates," "believes," "estimates," "expects," "plans," "projects," "targets" and similar expressions which identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date the statements were made. The Company undertakes no obligation to publicly update or revise any forward-looking statements.

ITEM 7. FINANCIAL STATEMENTS

Our balance sheet as of December 31, 2003, and the related statements of operations, stockholders' equity and cash flows for the two years ended December 31, 2003 and 2002, together with the independent certified public accountants' report thereon appear on Pages F-1 through F-24 hereof.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 8A. CONTROLS AND PROCEDURES.

As of the end of the period covered by this report, the Company's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the period covered by this report in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time period specified by the Securities and Exchange Commission's rules and forms.

Additionally, there were no changes in the Company's internal controls that could materially affect the Company's disclosure controls and procedures subsequent to the date of their evaluation, nor were there any material deficiencies or material weaknesses in the Company's internal controls. As a result, no corrective actions were required or undertaken.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

The information required by this item is included under the captions, “**Election of Directors**,” “**Executive Officers**” and “**Section 16(a) Beneficial Ownership Reporting Compliance**” in our proxy statement relating to our 2004 Annual Meeting of Shareholders to be held on May 20, 2004, and is incorporated herein by reference.

The Company has a Business Conduct Policy applicable to all employees of the Company. Additionally, the Chief Executive Officer ("CEO") and all senior financial officers, including the principal financial officer, the principal accounting officer or controller, or any person performing a similar function (collectively, the "Senior Financial Officers") are bound by the provisions of the newly adopted code of ethics relating to ethical conduct, conflicts of interest, and compliance with the law. The code of ethics is posted on the Company's website at <http://www.sciengineeredmaterials.com/cg/ethicscode.htm>.

The Company intends to satisfy the disclosure requirement under Item 10 of Form 8-K regarding any amendment to, waiver of, any provision of this code of ethics by posting such information on our website at the address and location specified above.

ITEM 10. EXECUTIVE COMPENSATION.

The information required by this item is included under the caption “**Executive Compensation**” in our proxy statement relating to our 2004 Annual Meeting of Shareholders to be held on May 20, 2004 and is incorporated herein by reference.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS.

The information required by this item is included under the captions “**Ownership of Common Stock by Directors and Executive Officers**,” and “**Ownership of Common Stock by Principal Shareholders**” in our proxy statement relating to our 2004 Annual Meeting of Shareholders to be held on May 20, 2004 and is incorporated herein by reference.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this item is included under the caption “**Certain Relationships and Related Transactions**” in our proxy statement relating to our 2004 Annual Meeting of Shareholders to be held on May 20, 2004 and is incorporated herein by reference.

PART IV

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

(a) The following documents are filed as part of this Annual Report on Form 10-KSB:

(1) The following financial statements are included in this report pursuant to Item 7:

Independent Auditors' Report

Balance Sheet

Statements of Operations

Statements of Stockholders' Equity (Deficit)

Statements of Cash Flows

Notes to the Financial Statements

(2) Exhibits:

<u>Exhibit Number</u>		<u>Exhibit Description</u>
3(a)	*	Amended and Restated Articles of Incorporation of Superconductive Components, Inc.
3(b)	*	Restated Code of Regulations of Superconductive Components, Inc.
10(a)	*	Lease Agreement between Superconductive Components, Inc. and University Area Rentals dated as of February 7, 1997.
10(b)	*	Subcontract Agreement between Superconductive Components, Inc. and The Ohio State University effective as of April 1, 2000.
10(c)	*	1987 Incentive Stock Option Plan.
10(d)	*	1991 Non-Statutory Stock Option Plan.
10(e)	*	1995 Stock Option Plan.
10(f)	**	License Agreement with Sandia Corporation dated February 26, 1996.
10(g)	**	Nonexclusive License with The University of Chicago (as Operator of Argonne National Laboratory) dated October 12, 1995.
10(h)	**	Nonexclusive License with The University of Chicago (as Operator of Argonne National Laboratory) dated October 12, 1995.
10(i)	**	Sales Distribution Agreement with Earth Chemical Co., Ltd.
10(j)	***	Letter Agreement with Oxford Superconducting Technology dated October 23, 2002.
10(k)	***	Department of Energy Award dated July 29, 2002.

10(l)	+	Department of Energy Award dated January 17, 2003.
10(m)	+	Department of Energy Award dated June 24, 2003.
10(n)	+	Department of Energy Award dated September 29, 2003.
10(o)		Ohio Department of Development Third Frontier Action Fund Award dated February 20, 2004.
23		Consent of Hausser & Taylor LLC.
24		Powers of Attorney.
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.
32.2	++	Section 1350 Certification of Principal Financial Officer.

* Filed with the Company's initial Form 10-SB on September 28, 2000, and incorporated herein by reference.

** Filed with the Company's Form 10-SB Amendment No. 1 on January 3, 2001, and incorporated herein by reference.

*** Filed with Company's Form 10-KSB on March 28, 2003 and incorporated herein by reference.

+ Filed with Company's Form 10-QSB on November 12, 2003 and incorporated herein by reference.

++ Furnished with this Annual Report on Form 10-KSB.

(b) Reports on Form 8-K

On December 8, 2003, the Company filed a current report on Form 8-K (Items 5 and 7), dated December 8, 2003, regarding the decision by the Company not to pay a dividend on the Series B Non-Voting Preferred Stock.

(c) Exhibits

The exhibits to this report follow the Signature Page.

ITEM 14. Principal Accountant Fees and Services

The information required by this item is included under the caption "**Principal Accountant Fees and Services**" in our proxy statement relating to our 2004 Annual Meeting of Shareholders to be held on May 20, 2004 and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

SUPERCONDUCTIVE COMPONENTS, INC.

Date: March 26, 2004

By: /s/ Daniel Rooney
Daniel Rooney, Chairman of the Board
of Directors, President and Chief
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 26th day of March 2004.

<i>Signature</i>	<i>Title</i>
<u> /s/ Daniel Rooney </u>	Chairman of the Board of Directors, President, and Chief Executive Officer (principal executive officer)
<u> Gerald S. Blaskie* </u> Gerald S. Blaskie	Chief Financial Officer (principal financial officer and principal accounting officer)
<u> Robert J. Baker* </u> Robert J. Baker	Director
<u> Edward W. Ungar* </u> Edward W. Ungar	Director

*By: /s/ Daniel Rooney
Daniel Rooney, Attorney-in-Fact

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To the Board of Directors and Shareholders
Superconductive Components, Inc.
Columbus, Ohio

Independent Auditors' Report

We have audited the accompanying balance sheet of Superconductive Components, Inc. as of December 31, 2003, and the related statements of operations, shareholders' equity (deficit) and cash flows for each of the two years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Superconductive Components, Inc. as of December 31, 2003, and the results of its operations and its cash flows for each of the two years in the period then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 17 to the financial statements, the Company has experienced recurring losses from operations, negative cash flow from operations and shareholders' deficit all of which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to this are also described in Note 17. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ HAUSSER + TAYLOR LLC

Columbus, Ohio

February 23, 2004, except for Note 14, as to which the date is March 4, 2004

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SUPERCONDUCTIVE COMPONENTS, INC.

BALANCE SHEET

DECEMBER 31, 2003

ASSETS

CURRENT ASSETS

Cash	\$	266,940
Accounts and notes receivable		
Trade, less allowance for doubtful accounts of \$25,000		119,566
Employees		6,995
Other		119
Inventories		500,533
Prepaid expenses		30,198
Total current assets		<u>924,351</u>

**PROPERTY AND EQUIPMENT,
AT COST**

Machinery and equipment		2,031,437
Furniture and fixtures		22,124
Leasehold improvements		347,349
		<u>2,400,910</u>
Less accumulated depreciation		<u>(1,827,076)</u>
		<u>573,834</u>

OTHER ASSETS

Deposit		7,863
Intangibles		40,159
Total other assets		<u>48,022</u>

TOTAL ASSETS \$ 1,546,207

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

SUPERCONDUCTIVE COMPONENTS, INC.

BALANCE SHEET

DECEMBER 31, 2003

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES

Capital lease obligation, current portion	\$ 31,994
Capital lease obligation, shareholder, current portion	68,428
Note payable shareholders, current portion	130,000
Accounts payable	222,117
Accounts payable, shareholders	7,920
Accrued contract expenses	86,049
Accrued personal property taxes	43,263
Accrued interest, shareholders	39,760
Deferred contract revenue	50,742
Accrued expenses	72,195
Total current liabilities	<u>752,468</u>

**CAPITAL LEASE OBLIGATION, NET OF
CURRENT PORTION**

31,727

**CAPITAL LEASE OBLIGATION, SHAREHOLDER, NET OF
CURRENT PORTION**

-

**NOTE PAYABLE SHAREHOLDERS, NET OF CURRENT
PORTION**

767,625

COMMITMENTS AND CONTINGENCIES

-

SHAREHOLDERS' EQUITY (DEFICIT)

Convertible preferred stock, Series B, 10% cumulative, nonvoting, no par value, \$10 stated value, optional redemption at 103%; 25,185 issued and outstanding	284,591
Common stock, no par value, authorized 15,000,000 shares; 1,823,256 shares issued and outstanding	6,378,216
Additional paid-in capital	59,893
Accumulated deficit	<u>(6,728,313)</u>
	<u>(5,613)</u>

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT) \$ 1,546,207

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

SUPERCONDUCTIVE COMPONENTS, INC.

STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
SALES REVENUE	\$ 2,021,653	\$ 2,704,082
CONTRACT RESEARCH REVENUE	246,835	254,462
	<u>2,268,488</u>	<u>2,958,544</u>
COST OF SALES REVENUE	1,678,454	1,908,693
INVENTORY WRITE-DOWN	133,015	190,881
COST OF CONTRACT RESEARCH	154,363	241,155
	<u>1,965,832</u>	<u>2,340,729</u>
GROSS MARGIN	302,656	617,815
GENERAL AND ADMINISTRATIVE EXPENSES	778,758	868,005
SALES AND PROMOTIONAL EXPENSES	214,691	210,730
	<u>214,691</u>	<u>210,730</u>
LOSS FROM OPERATIONS	<u>(690,793)</u>	<u>(460,920)</u>
OTHER INCOME (EXPENSE)		
Interest income	2,499	4,636
Interest expense	(34,002)	(26,341)
Insurance proceeds	-	39,083
Gain on sale of equipment	6,157	36,500
Miscellaneous, net	11,149	-
	<u>(14,197)</u>	<u>53,878</u>
LOSS BEFORE PROVISION FOR INCOME TAX	(704,990)	(407,042)
INCOME TAX EXPENSE	<u>-</u>	<u>-</u>
NET LOSS BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING	(704,990)	(407,042)
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING	<u>(15,886)</u>	<u>-</u>
NET LOSS	(720,876)	(407,042)
DIVIDENDS ON PREFERRED STOCK	(25,185)	(31,666)
ACCRETION OF REDEEMABLE CONVERTIBLE PREFERRED (SERIES A)	<u>-</u>	<u>(6,469)</u>
LOSS APPLICABLE TO COMMON SHARES	<u>\$ (746,061)</u>	<u>\$ (445,177)</u>
EARNINGS PER SHARE - BASIC AND DILUTED (Note 2)		
NET LOSS PER COMMON SHARE BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING		
Basic	\$ <u>(0.39)</u>	\$ <u>(0.22)</u>
Diluted	\$ <u>(0.39)</u>	\$ <u>(0.22)</u>
NET LOSS PER COMMON SHARE AFTER CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING		
Basic	\$ <u>(0.41)</u>	\$ <u>(0.24)</u>
Diluted	\$ <u>(0.41)</u>	\$ <u>(0.24)</u>
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	<u>1,823,256</u>	<u>1,823,256</u>
Diluted	<u>1,823,256</u>	<u>1,823,256</u>

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

SUPERCONDUCTIVE COMPONENTS, INC.

STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT)

Years Ended December 31, 2003 and 2002

	Convertible Preferred Stock, Series B	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total
Balance 12/31/01	\$ 333,136	\$ 6,366,966	\$ 47,127	\$ (5,600,395)	\$ 1,146,834
Equity reclassification (Note 16)	(76,086)		76,086		-
Accretion of cumulative dividends	27,541		(31,666)		(4,125)
Accretion of Series A offering costs			(6,469)		(6,469)
Issuance of stock		11,250			11,250
Payment of cumulative dividends	(25,185)				(25,185)
Net loss				(407,042)	(407,042)
Balance 12/31/02	259,406	6,378,216	85,078	(6,007,437)	715,263
Accretion of cumulative dividends	25,185		(25,185)		-
Net loss				(720,876)	(720,876)
Balance 12/31/03	<u>\$ 284,591</u>	<u>\$ 6,378,216</u>	<u>\$ 59,893</u>	<u>\$ (6,728,313)</u>	<u>\$ (5,613)</u>

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

SUPERCONDUCTIVE COMPONENTS, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (720,876)	\$ (407,042)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	212,031	228,888
Amortization and accretion	3,088	2,971
Cumulative effect of a change in accounting	15,886	-
Gain on sale of equipment	(6,157)	(36,500)
Inventory reserve	18,330	88,334
Provision for doubtful accounts	7,000	5,000
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	124,530	154,235
Inventories	136,570	114,226
Prepaid expenses	3,736	(21,083)
Other assets	(7,863)	(2,226)
Increase (decrease) in liabilities:		
Accounts payable	(107,576)	11,233
Accrued expenses and deferred revenue	130,740	(137,964)
Total adjustments	<u>530,315</u>	<u>407,114</u>
Net cash provided by (used in) operating activities	<u>(190,561)</u>	<u>72</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of equipment	6,157	36,500
Purchases of property and equipment	<u>(157,419)</u>	<u>(88,967)</u>
Net cash used in investing activities	<u>(151,262)</u>	<u>(52,467)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable, shareholders	600,000	50,000
Principal payments on capital lease obligations	(40,144)	(41,595)
Payment of cumulative dividends	<u>--</u>	<u>(25,185)</u>
Net cash provided by (used in) financing activities	<u>559,856</u>	<u>(16,780)</u>

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

SUPERCONDUCTIVE COMPONENTS, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
NET INCREASE (DECREASE) IN CASH	218,032	(69,175)
CASH - Beginning of period	<u>48,908</u>	<u>118,083</u>
CASH - End of period	<u><u>\$ 266,940</u></u>	<u><u>\$ 48,908</u></u>
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the years for:		
Interest, net	\$ 7,295	10,905
Income taxes	\$ -	-

SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING ACTIVITIES

In second quarter 2003, \$121,770 of Redeemable Convertible Preferred stock, Series A, was converted to Notes Payable, Shareholders

In second quarter 2003, \$7,585 of accrued interest was transferred to Notes Payable Shareholders

Machinery & Equipment and expenses for asset retirement obligations of \$30,236 are accrued

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

SUPERCONDUCTIVE COMPONENTS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Business Organization and Purpose

Superconductive Components, Inc. (the Company) is an Ohio corporation that was incorporated in May 1987. The Company was formed to develop, manufacture and sell materials using superconductive principles. Operations have since been expanded to include the manufacture and sale of non-superconductive materials. The Company's domestic and international customer base is primarily in the thin film battery, high temperature superconductor, lens and optical coatings, electronics, functional coatings industries and research.

Note 2. Summary of Significant Accounting Policies

- A. Inventories - Inventories are stated at the lower of cost or market on an acquired or internally produced lot basis, and consist of raw materials, work-in-process and finished goods. Cost includes material, labor, freight and applied overhead. Inventory reserves are established for obsolete inventory and excess inventory quantities based on management's estimate of net realizable value. The inventory reserve increased \$18,330 during 2003. This was due to a reduction in some finished goods and work in process due to lower of cost or market in the amount of \$64,537. This amount was charged to cost of goods sold. In addition, \$68,478 of obsolete inventory was written off the books and charged to cost of goods sold in 2003. These amounts were partially offset by sales of a raw material throughout the year that was reduced to lower of cost or market in 2002.

The Company enters into cancelable purchase commitment arrangements with some suppliers. Estimated purchase commitments to these suppliers approximate \$45,000 for 2003. The Company can cancel these commitments at the Company's discretion without penalty.

- B. Property and Equipment - Property and equipment are carried at cost. Depreciation is provided on the straight-line method based on the estimated useful lives of the assets for financial reporting purposes and allowable accelerated methods for tax purposes. Useful lives range from ten years on certain furniture and fixtures to three years on leasehold improvements and computer software. Expenditures for renewals and betterments are capitalized and expenditures for repairs and maintenance are charged to operations as incurred.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference. There have been no such impairment adjustments.

SUPERCONDUCTIVE COMPONENTS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

- C. Research and Development - Internal research and development costs are expensed as incurred. Research and development expenses for the years ended December 31, 2003 and 2002 were \$93,096 and \$43,885, respectively.

Third-party research and development costs are expensed when the contracted work has been performed or as milestone results have been achieved. These contracts vary from six months to three years in duration. The terms of the contracts, which are fixed price, require the Company to submit final reports and/or progress reports to the sponsor. While the contracts are subject to cancellation, management believes that the Company will comply with all terms of the contracts and that all of the amounts awarded to the Company will be collected.

Research revenue and expenses associated to third parties are separately identified in the Statements of Operations.

During 2003 and 2002, the Company earned \$246,835 and \$254,462, respectively, in contract revenue. At December 31, 2003, there was an outstanding accounts receivable from contract research revenue of \$9,991. There is deferred revenue of \$50,742 at December 31, 2003.

During 2002, the Company was awarded a nine-month contract in the amount of \$100,000 that began August 22, 2002. Also, the Company became a member of a team and was awarded a thirty-five month contract in the amount of \$263,471. The Company will share 50% of the cost. The contract agreement date was November 19, 2002.

During 2003 the Company was awarded a twenty-four month contract in the amount of \$523,612 that began June 27, 2003.

- D. Licenses - The Company has secured licenses to produce various superconductive materials for periods up to the expiration of the applicable patents. The license fees, included in "Other Assets" on the balance sheet, are being amortized over the expected life of the agreement or applicable patent, which is seventeen years. Cost and accumulated amortization of licenses at December 31, 2003 are \$21,000 and \$10,196, respectively. Amortization expense was \$1,259 for the years ended December 31, 2003 and 2002. Amortization expense is estimated to be \$1,259 for each of the next five years.
- E. Patent - The Company has secured patents for manufacturing processes used in its operations. Costs incurred to secure the patents have been capitalized, included in "Other Assets" on the balance sheet, and are being amortized over the life of the patents. Cost and accumulated amortization of the patent at December 31, 2003 are \$36,473 and \$7,118, respectively. Amortization expense was \$1,830 and \$1,712 for the years ended December 31, 2003 and December 31, 2002, respectively. Amortization expense is estimated to be \$1,830 for each of the next five years.
- F. Income Taxes – Income taxes are provided for by utilizing the asset and liability method which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax

SUPERCONDUCTIVE COMPONENTS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

bases of assets and liabilities using presently enacted tax rates. Deferred tax assets are recognized for net operating loss carryforwards, reduced by a valuation allowance which is established when “it is more likely than not” that some portion or all of the deferred tax assets will not be recognized.

- G. Stock Based Compensation - The Company utilizes the provisions of Accounting Principles Board (“APB”) No. 25, “Accounting for Stock Issued to Employees” which utilized a fair value based method. The Financial Accounting Standards Board (“FASB”) Statement No. 123, “Accounting for Stock-Based Compensation”, utilized a fair value based method. The FASB requires disclosure for new employee stock options of the impact to the financial statements of utilizing the intrinsic value versus the fair value based method. For stock based compensation other than employees, the Company utilizes the fair value method as provided for in FASB #123.

The Company’s pro forma information for the years ended December 31, 2003 and 2002 in accordance with the provisions of FASB #123 is provided below. For purposes of pro forma disclosures, stock-based compensation is amortized to expense on a straight-line basis over the vesting period. The following table compares 2003 and 2002 results as reported to the results had the Company adopted the expense recognition provisions of FASB #123.

	<u>2003</u>	<u>2002</u>
Net loss applicable to common shares:		
As reported	\$ (746,061)	\$ (445,177)
Stock-based compensation, net of Tax for pro forma	<u>(4,983)</u>	<u>(2,183)</u>
Pro forma net loss under SFAS #123	\$ <u>(751,044)</u>	\$ <u>(447,360)</u>
Basic and diluted loss per share:		
As reported	\$ (0.41)	\$ (0.24)
Pro forma under SFAS #123	(0.41)	\$ (0.25)

For the years ended December 31, 2003 and 2002, there was no stock-based employee compensation cost included in the determination of net loss as reported.

- H. Income (Loss) Per Common Share – Income (loss) per common share amounts are based on the weighted average number of shares outstanding. Due to the net loss in 2003 and 2002, the assumed conversion of preferred stock and exercise of stock options and warrants are anti-dilutive and have not been considered in the calculation of per share amounts.
- I. Statements of Cash Flows - For purposes of the statements of cash flows, the Company considers all highly liquid investments purchased with maturity of three months or less to be cash. No such investments were purchased.

SUPERCONDUCTIVE COMPONENTS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

- J. Concentrations of Credit Risk - The Company's cash balances, which are at times in excess of federally insured levels, are maintained at a large regional bank, and are continually monitored to minimize the risk of loss. The Company grants credit to its customers, who are varied in terms of size, geographic location and financial strength. Customer balances are continually monitored to minimize the risk of loss.

The Company had one major customer in 2003 and 2002, which accounted for approximately \$428,000 and \$519,000, respectively, of the total revenue and \$15,000 of the trade accounts receivable at December 31, 2003.

- K. Use of Estimates - 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 and disclosure of contingent 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.

- L. Fair Value - The estimated fair value of amounts reported in the financial statements have been determined using available market information and valuation methodologies, as applicable (see Note 12).

- M. Revenue Recognition - Revenue from product sales is recognized upon shipment to customers. Provisions for discounts, returns and others adjustments are provided for in the same period as the related sales are recorded. Deferred revenues represents cash received in advance of the contract revenues earned. Revenue from contract research provided for third parties is recognized when the contracted work has been performed or as milestone results have been achieved.

- N. Accounts Receivable - The Company extends unsecured credit to customers under normal trade agreements, which require payment within 30 days. Accounts greater than 90 days past due, which amounted to \$0 and \$11,000 of net receivables for the years ended December 31, 2003 and 2002, respectively are considered delinquent. The Company does not charge interest on delinquent trade accounts receivable. Accounts greater than one year past due, which amount to \$0 and \$0 of net receivables for the years ended December 31, 2003 and 2002 are placed on non-accrual status. Unless specified by the customer, payments are applied to the oldest unpaid invoice. Accounts receivable are presented at the amount billed.

Management estimates an allowance for doubtful accounts, which was \$25,000 and \$18,000 as of December 31, 2003 and 2002, respectively. The estimate is based upon management's review of delinquent accounts and an assessment of the Company's historical evidence of collections. Bad debt expense of \$0 and \$0 was recognized for the years ended December 31, 2003 and 2002, respectively as a result of this estimate. Specific accounts are charged directly to the reserve when management obtains evidence of a customer's insolvency or otherwise determines that the account is uncollectible. Charge-offs of specific accounts for the years ended December 31, 2003 and 2002 totaled \$35,000 and \$2,000 respectively. The \$35,000 in 2003 was for a related party.

SUPERCONDUCTIVE COMPONENTS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

- O. Intangible Assets – In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”). SFAS 142 requires certain intangible assets to be tested for impairment under certain circumstances, and written off when impaired, rather than being amortized as previous standards required. There were no impairment adjustments for the years ended December 31, 2003 and 2002.

Note 3. Inventories

Inventories consist of the following at December 31, 2003:

Raw materials	\$	361,238
Work-in-process		101,274
Finished goods		<u>182,474</u>
		644,986
Less reserve for obsolete inventory		<u>144,453</u>
	\$	<u><u>500,533</u></u>

Note 4. Notes Payable - Bank

The Company had a bank line of credit in the amount of \$100,000, interest at prime. This line of credit matured June 30, 2003 and was not renewed.

SUPERCONDUCTIVE COMPONENTS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Lease Obligations

Operating

The Company leases its facilities and certain office equipment under agreements classified as operating leases expiring through 2014. Rent expense which includes various monthly rentals for the years ended December 31, 2003 and 2002, totaled \$73,438 and \$73,420, respectively. Future minimum lease payments at December 31, 2003 are as follows:

2004	\$	37,667
2005		100,575
2006		100,330
2007		94,362
2008		94,362
2009 and beyond		608,521
	\$	1,035,817

Capital

The Company also leases certain equipment under capital leases including the lease with a major shareholder entered into in 2001. The future minimum lease payments by year with the present value of such payments, as of December 31, 2003 is as follows:

	<u>Related Party</u>	<u>Other</u>
2004	\$ 74,940	\$ 35,933
2005	-	23,891
2006	-	9,782
Total minimum lease payments	<u>74,940</u>	<u>69,606</u>
Less amount representing interest	<u>6,512</u>	<u>5,885</u>
Present value of minimum lease payments	68,428	63,721
Less current portion	<u>68,428</u>	<u>31,994</u>
Long-term capital lease obligations	<u>\$ -</u>	<u>\$ 31,727</u>

The equipment under capital lease at December 31, 2003 is included in the accompanying balance sheet under the following captions:

	<u>Related Party</u>	<u>Other</u>
Machinery and equipment	\$ 68,428	\$ 211,355
Less accumulated depreciation	<u>24,439</u>	<u>135,545</u>
Net book value	<u>\$ 43,989</u>	<u>\$ 75,810</u>

SUPERCONDUCTIVE COMPONENTS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Lease Obligations (Continued)

These assets are amortized over four to seven years using the straight-line method and amortization is included in depreciation expense.

Amortization expense totaled \$39,969 for the years ended December 31, 2003 and 2002.

Note 6. Related Party Notes Payable

Effective December 31, 2000, the Company converted accounts payable and accrued interest payable to certain major shareholders totaling \$132,270 to a note payable shareholders. The same shareholder converted \$50,000 of accounts payable in March 2002 to the note payable. The note provides for monthly payments of principal of \$2,000 per month for the period of February 1, 2001 through December 1, 2002 and, thereafter, in monthly installments of \$4,000 for principal until the entire outstanding balance is paid in full. The balance of the note was \$178,270 at December 31, 2003. There was \$4,000 paid in 2001 and there were no principal payments made on this note during 2003 and 2002. Interest is based upon the Prime Commercial Rate. Prime was 4.0% and 4.25% at December 31, 2003, and 2002, respectively. Interest expense on this note charged to operations was \$6,456 and \$8,037 for the years ended December 31, 2003 and 2002, respectively.

The Company completed two private financing transactions in 2003 including (i) the issuance of convertible promissory notes in the aggregate amount of \$600,000 and 122,000 warrants to purchase shares of common stock in exchange for \$600,000 in cash and (ii) the redemption of the Company's entire \$129,770 obligation on its Series A redeemable convertible preferred stock in exchange for convertible promissory notes in the aggregate amount of \$129,770, which represented the face amount of the preferred stock plus accrued and unpaid dividends and interest, and 26,302 warrants to purchase shares of common stock. Four present shareholders invested the \$600,000. See Note 9 for warrant information.

The principal and interest, at prime, on the \$729,770 of new convertible promissory notes are payable June 30, 2006. If the Company completes an equity financing for at least \$500,000 prior to June 30, 2004, the notes shall automatically convert to common stock at the same per share price as the equity financing and thereafter the notes shall convert to common stock at the option of the holders at \$2.00 per share.

The aggregate long-term debt payments for each of the next five years are:

2004	\$	130,000
2005		38,270
2006		<u>729,355</u>
		897,625
Current		<u>130,000</u>
Long-term	\$	<u><u>767,625</u></u>

SUPERCONDUCTIVE COMPONENTS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7. Common and Preferred Stock

Preferred Stock

Shares of preferred stock authorized and outstanding at December 31, 2003 are as follows:

	<u>Shares Authorized</u>	<u>Shares Outstanding</u>
Cumulative Preferred Stock	10,000	-
Voting Preferred Stock	125,000	-
Non-Voting Preferred Stock	125,000 (a)	25,185 (b)

(a) Includes 700 shares of Series A Preferred Stock and 100,000 shares of Series B Preferred Stock authorized for issuance.

(b) Includes 25,185 shares of Series B Preferred Stock outstanding at December 31, 2003.

In June 1995, the Company completed an offering of 215 shares of \$1,000 stated value 1995 Series A 10% non-voting convertible preferred stock. In January 1996, the Company completed an offering of 70,000 shares of \$10 stated value 1995 Series B 10% non-voting convertible preferred stock. The Series A shares are convertible to common shares at the rate of \$6.00 per share and Series B shares at the rate of \$5.00 per share. At the Company's option, Series A and Series B shares are redeemable at 103% after the respective third anniversary dates.

The Company redeemed the Series A preferred stock in 2003 (see note 6).

As security for cash dividends on the Series B preferred shares, related party shareholders had pledged an aggregate 131,000 shares of \$.01 par value common stock of another entity. In December 2002, the pledged shares were released in accordance with the terms of the pledge agreement.

During 2003 and 2002, Series B cash dividends totaling \$0 and \$25,185 were paid, respectively. At December 31, 2003 the Company has accrued dividends on Series B preferred stock of \$25,185, which is included in convertible preferred stock, Series B on the balance sheet at December 31, 2003.

SUPERCONDUCTIVE COMPONENTS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7. Common and Preferred Stock (Continued)

Earnings Per Share

At December 31, 2003 and 2002, all outstanding common stock equivalents which include preferred stock, Series A (for 2002) and B, employee and director stock options and warrants are antidilutive due to the net loss.

	December 31, <u>2003</u>	December 31, <u>2002</u>
Options	395,500	504,550
Warrants	308,302	160,000
Preferred Series A	-	16,500
Preferred Series B	<u>50,370</u>	<u>50,370</u>
	<u><u>754,172</u></u>	<u><u>731,420</u></u>

The following data show the amounts used in computing income (loss) per share (EPS) and the effect on income and the weighted average number of shares of dilutive potential common stock.

	<u>2003</u>	<u>2002</u>
Loss applicable to common shareholders used in basic EPS and diluted EPS	\$ <u>(746,061)</u>	\$ <u>(445,177)</u>
Weighted average number of common shares used in EPS	1,823,256	1,823,256
Effect of dilutive securities: Stock options and warrants	<u>-</u>	<u>-</u>
Weighted number of common shares and dilutive potential common stock used in diluted EPS	<u><u>1,823,256</u></u>	<u><u>1,823,256</u></u>

SUPERCONDUCTIVE COMPONENTS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 8. Incentive Stock Option Plans

In February 1991, the Company adopted the 1991 Non-Statutory Stock Option Plan (the Non-Statutory Plan) under which options to purchase up to 20,000 shares of the Company's common stock may be granted to key employees, directors, consultants, advisors and sales representatives, subject to the execution of stock option agreements. Options may be exercised for periods up to 10 years from the date of grant at prices to be determined by the Board of Directors. The Company has reserved 2,000 of the shares subject to the Non-Statutory Plan for options to be granted to sales representatives.

On September 29, 1995, the Company adopted the 1995 Stock Option Plan (the 1995 Plan) as incentive to key employees, directors and consultants under which options to purchase up to 900,000 shares of the Company's common stock may be granted, subject to the execution of stock option agreements. Incentive stock options may be granted to key associates of the Company and Non-Statutory options may be granted to directors who are not employees and to consultants and advisors who render services to the Company. Options may be exercised for periods up to 10 years from the date of grant at prices not less than 100% of fair market value on the date of grant.

The cumulative status at December 31, 2003 and 2002 of options granted and outstanding, as well as options which became exercisable in connection with the Incentive Plan is summarized as follows:

Employee Stock Option Plans

		Weighted	
		Average	
	Stock Options	Exercise Price	
Outstanding at December 31, 2001	263,200	\$ 2.22	
Granted	190,000	1.55	
Exercised	-	-	
Expired	(5,950)	2.50	
Forfeited	(49,700)	2.94	
Outstanding at December 31, 2002	397,550	1.94	
Granted	10,000	1.00	
Exercised	-	-	
Expired	(54,700)	2.96	
Forfeited	(94,350)	1.86	
Outstanding at December 31, 2003	258,500	\$ 1.67	
Shares exercisable at December 31, 2002	123,200	2.42	
Shares exercisable at December 31, 2003	150,850	1.68	

SUPERCONDUCTIVE COMPONENTS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 8. Incentive Stock Option Plans (Continued)

Non-Employee Director Option Plans

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at December 31, 2001	196,500	\$ 2.22
Granted	-	-
Exercised	-	-
Expired	(89,500)	2.00
Forfeited	-	-
Outstanding at December 31, 2002	107,000	2.14
Granted	30,000	1.00
Exercised	-	-
Expired	-	-
Forfeited	-	-
Outstanding at December 31, 2003	137,000	\$ 1.89
Shares exercisable at December 31, 2002	98,000	2.14
Shares exercisable at December 31, 2003	101,000	2.14

Exercise prices for options range from \$1.00 to \$3.00 for options at December 31, 2003. The weighted average option price for all options outstanding is \$1.75 with a weighted average remaining contractual life of 7.3 years.

The exercise price for all options exercisable at December 31, 2003 range from \$1.30 to \$3.00.

The weighted average fair values at date of grant for options granted during 2003 and 2002 were \$1.00 and \$1.45, respectively, and were estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

	<u>2003</u>	<u>2002</u>
Expected life in years	7.3	6.89
Interest rate	5%	5%
Volatility	110.67%	110.67%
Dividend yield	0%	0%

SUPERCONDUCTIVE COMPONENTS, INC.

NOTES TO FINANCIAL STATEMENTS.

Note 9. Warrants Issued

Warrants unexercised at December 31, 2003 issued to related parties are as follows:

<u># of Common Shares</u>	<u>Issued To</u>	<u>Consideration</u>	<u>Issue Date</u>	<u>Expiration</u>	<u>Exercise Price</u>
<u>Related Parties</u>					
75,000	Edward Funk	Subordinated notes payable	1-00	1-10	\$ 2.50
75,000	Ingeborg Funk	Subordinated notes payable	1-00	1-10	\$ 2.50
20,333	Windcom Investments, SA	Convertible promissory note	6-03	6-08	\$ 1.00
10,000	Estate of Edward R. Funk	Lease Guarantee	6-03	6-08	\$ 1.00
33,889	Laura Shunk	Convertible promissory note	6-03	6-08	\$ 1.00
33,889	Daniel A. Funk	Convertible promissory note	6-03	6-08	\$ 1.00
13,151	Laura Shunk	Stock redemption agreement	6-03	6-08	\$ 1.00
13,151	Daniel A. Funk	Stock redemption agreement	6-03	6-08	\$ 1.00
33,889	Robert H. Peitz	Convertible promissory note	6-03	6-08	\$ 1.00

The Company has issued common stock purchase warrants at \$2.50 (fair market value at date of grant) per common share for 150,000 shares of common stock related to the subordinated notes payable to Edward and Ingeborg Funk. The warrants are 100% vested and expire ten years from the date of grant of January 7, 2000.

The Company issued 20,333 common stock purchase warrants of \$1.00 (above fair market value at date of grant) per common share for 20,333 shares of common stock related to the promissory note payable to Windom Investments, SA. The warrants vest according to the following schedule: (1) 8,333 vest on the date of grant; and (2) 12,000 vest 333 per month for 32 months, then 336 per month for four months.

The Company issued 10,000 common stock purchase warrants of \$1.00 (above fair market value at date of grant) per common share for 10,000 shares of common stock related to lease guarantee by the Estate of Edward R. Funk. The warrants vest according to the following schedule: (1) 4,600 vest on the date of grant; and (2) 5,400 vest 150 per month for 36 months.

The Company issued 33,889 common stock purchase warrants of \$1.00 (above fair market value at date of grant) per common share for 33,889 shares of common stock related to the promissory note payable to Laura Shunk. The warrants vest according to the following schedule: (1) 13,889 vest on the date of grant; and (2) 20,000 vest 556 per month for 32 months, then 552 per month for four months.

The Company issued 33,889 common stock purchase warrants of \$1.00 (above fair market value at date of grant) per common share for 33,889 shares of common stock related to the promissory note payable to Daniel A. Funk. The warrants vest according to the following schedule: (1) 13,889 vest on the date of grant; and (2) 20,000 vest 556 per month for 32 months, then 552 per month for four months.

SUPERCONDUCTIVE COMPONENTS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 9. Warrants Issued (Continued)

The Company issued 13,151 common stock purchase warrants of \$1.00 (above fair market value at date of grant) per common share for 13,151 shares of common stock to Laura Shunk related to the Series A Preferred Stock Redemption. The warrants vest according to the following schedule: (1) 5,260 vest on the date of grant; and (2) 7,891 vest 220 per month for 35 months, then 191 per month for one month.

The Company issued 13,151 common stock purchase warrants of \$1.00 (above fair market value at date of grant) per common share for 13,151 shares of common stock to Daniel A. Funk related to the Series A Preferred Stock Redemption. The warrants vest according to the following schedule: (1) 5,260 vest on the date of grant; and (2) 7,891 vest 220 per month for 35 months, then 191 per month for one month.

The Company issued 33,889 common stock purchase warrants of \$1.00 (above fair market value at date of grant) per common share for 33,889 shares of common stock related to the promissory note payable to Robert H. Peitz. The warrants vest according to the following schedule: (1) 13,889 vest on the date of grant; and (2) 20,000 vest 556 per month for 32 months, then 552 per month for four months.

Note 10. Income Taxes

Deferred tax assets and liabilities result from temporary differences in the recognition of income and expense for tax and financial reporting purposes. Significant components of the Company's deferred tax assets and liabilities are as follows at December 31:

	<u>2003</u>
Deferred tax assets	
NOL Carryforward	\$ 2,174,000
UNICAP	40,000
Allowance for doubtful accounts	9,000
Reserve for obsolete inventory	55,000
Property and equipment	50,000
	<u>2,328,000</u>
Valuation allowance	<u>2,328,000</u>
Net	<u><u>\$ -</u></u>

A valuation allowance has been recorded against the realizability of the net deferred tax asset, such that no value is recorded for the asset in the accompanying financial statements. The valuation allowance totaled \$2,328,000 and \$1,813,000 at December 31, 2003 and 2002, respectively.

The Company has net operating loss carryovers available for federal and state tax purposes of approximately \$5,721,000, which expire in varying amounts from 2004 through 2023.

SUPERCONDUCTIVE COMPONENTS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 10. Income Taxes (continued)

For the years ended December 31, 2003 and 2002, a reconciliation of the statutory rate and effective rate for the provisions for income taxes consists of the following:

	Percentage	
	2003	2002
Federal statutory rate	(34.0)	(34.0)
Valuation allowance	34.0	34.0
Effective rate	-	%

The expense (benefit) for income taxes consists of the following:

	2003	2002
Current expense	\$ -	\$ -
Deferred expense	-	-
Total	\$ -	\$ -

Note 11. Related Party Transactions

Sales to a related party amounted to \$17,999 and \$20,812 during 2003 and 2002, respectively.

The Company has a note receivable from an ex-employee of the Company in the amount of \$6,805. The note bears interest at 8% per annum.

The Company has trade payables, shareholders of \$7,920 pertaining to reimbursement for purchase of goods and services obtained for Company purposes.

Interest expense, shareholders was \$23,206 and \$15,428 for the years ended December 31, 2003 and 2002, respectively.

The Company retained a related party to provide management assistance for a fee of \$14,550 per month beginning January 15, 2002. This agreement was terminated after three (3) months and all fees have been paid.

For additional information regarding related party transactions, see Notes 4, 6 and 9.

SUPERCONDUCTIVE COMPONENTS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 12. Fair Value of Financial Instruments

The fair value of financial instruments represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Significant differences can arise between the fair value and carrying amount of financial instruments that are recognized at historical cost amounts.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

- Cash and cash equivalents, short-term debt and current maturities of long-term debt: Amounts reported in the balance sheet approximate fair market value due to the short maturity of these instruments.
- Long-term capital lease obligations: Amounts reported in the balance sheet approximate fair value as the interest rates on these obligations range from 6% to 9.9%.
- Note payable shareholders: Amounts reported in the balance sheet represent debt to major shareholders. Amounts reported in the balance sheet approximate fair market value, as the interest rate is prime.

Note 13. Fourth Quarter Adjustments

The Statement of Operations includes fourth quarter adjustments for the inventory write-down of \$133,015. This adjustment contains two components. Inventory for some finished goods and work-in-process were reduced to the lower of cost or market for a reduction of pricing that began declining in 2003. The lower of cost or market adjustment totaled \$64,537.

Additionally, management in the fourth quarter reviewed inventory for obsolete items and inventory items that are no longer used in the manufacturing process. This review process was in excess of the inventory reserve on the books and resulted in an inventory write-down of \$68,488.

Note 14. Subsequent Event Promissory Note

The Company issued a promissory note in the amount of \$150,000 on March 4, 2004. The principal sum and any accrued and unpaid interest is payable in full on May 31, 2004. The interest rate is equal to two percentage points (2%) in excess of the Prime Commercial Rate.

SUPERCONDUCTIVE COMPONENTS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 15. Asset Retirement Obligation

Included in machinery and equipment is various production equipment, which per the Company's building lease, is required to be removed upon termination of the lease. Included in accrued expenses in the accompanying balance sheet is the asset retirement obligation that represents the expected present value of the liability to remove this equipment. There are no assets that are legally restricted for purposes of settling this asset retirement obligation.

The Company recorded a cumulative effect of a change in accounting as a charge to loss from operations of \$15,866 on January 1, 2003 for amortization of the related asset recorded for these costs. Following is a reconciliation of the aggregate retirement liability associated with the Company's obligation to dismantle and remove the machinery and equipment associated with its lease of its previous facility. The Company is moving from this facility in first quarter 2004.

Balance at December 31, 2002	\$	0
Liability incurred prior to 2003		27,158
Increase in present value of the obligation (accretion expense in the corresponding amount charged against earnings)		3,078
Liabilities settled		<u>0</u>
Balance at December 31, 2003		<u>\$30,236</u>

The Company's pro forma information if the change in accounting was implemented on December 31, 2002 is as follows for the liability:

Balance at December 31, 2002 (as reported)	\$	0
Liability incurred prior to 2002		24,080
Increase in present value of the obligation (accretion expense in the corresponding amount charged against earnings)		3,078
Liabilities settled		<u>0</u>
Balance at December 31, 2002		<u>\$27,158</u>

The following summarizes the pro forma information for the statement of operations for the years ended December 31, 2002:

Loss applicable to common shares, as reported		\$(445,177)
Accretion expense		(3,078)
Depreciation expense		<u>(3,936)</u>
Loss applicable to common shares – restated		<u>\$(452,191)</u>
Earnings per share – basic and diluted, as reported		<u>\$(0.24)</u>
Earnings per share – basic and diluted, restated		<u>\$(0.25)</u>

SUPERCONDUCTIVE COMPONENTS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 16. Equity Reclassification

The Company recomputed outstanding Series B convertible preferred stock and determined that certain amounts required reclassification at December 31, 2001 and 2002 as follows:

	2001		2002	
	<u>As previously reported</u>	<u>As reclassified</u>	<u>As previously reported</u>	<u>As reclassified</u>
Convertible preferred Stock, Series B	\$333,136	\$257,050	\$335,492	\$259,406
Additional paid-in Capital	\$47,127	\$123,113	\$8,992	\$85,078

Note 17. Going Concern

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of the Company as a going concern. However, the Company has sustained recurring losses from operations, negative cash flow from operations and shareholders' deficit of \$5,613, all of which raise substantial doubt of ability to continue as a going concern. While the Company has approximately \$267,000 of cash on hand at December 31, 2003 and received additional debt financing of \$150,000 subsequent to year-end, these funds are required to finance the company's move of it facilities in March 2004 and funding operations in first quarter 2004. Management is investigating additional equity funding from several sources to fund its operations for 2004. In March 2004 the Company received \$512,848 from the State of Ohio's Third Frontier Action Fund to begin purchasing capital equipment required to commercialize the Company's Lithium Thin Film Battery sputtering target manufacturing process. Also, in March 2004 the Company was approved by the Ohio Department of Development's Industrial Technology Enterprise Advisory Council Committee as an eligible entity for the Technology Investment Tax Credit program. The program is intended to benefit small Ohio-based research and development and technology-oriented companies. This approval permits individuals and businesses to receive state tax incentives for up to twenty-five percent of their qualified investments in the Company through September 2004. The Company plans to raise equity capital beginning in April 2004 to fund a portion of its planned growth.

In view of these matters, realization of a major portion of the assets in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to find additional source of funds and the success of future operations. Management believes that actions presently being taken to revise the Company's operating and financial requirements provide the opportunity for the Company to continue as a going concern.

GRANT AGREEMENT

This Grant Agreement (the “Agreement”) is made and entered into by and between the **State of Ohio, Department of Development** (hereinafter referred to as the “Grantor”), and **Superconductive Components, Inc. dba SCI Engineered Materials** (hereinafter referred to as the “Grantee”). This Agreement shall have the ODOT Agreement Control Number of TECH 04-034.

STATEMENT OF THE AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and the mutual promises and covenants hereinafter set forth, the parties hereby agree as follows:

1. Grant of Funds. Grantor hereby grants funds to Grantee from the Third Frontier Action Fund (TFAF) in the amount of One Million One Hundred Seventy Five Thousand Three Hundred Twenty One and No/100 Dollars (\$1,175,321.00) (the “Funds”), for the purposes set forth in Exhibit I, the Grantee’s Proposal, as amended (hereinafter referred to as the “Project”) which is not attached hereto but ‘Which is incorporated herein as referenced, submitted in response to the Request for Proposal for the Third Frontier Action Funds which closed on July 23, 2003, Exhibit II, which is attached hereto and made a part hereof (hereinafter referred to as the “RFP”). Of the total funds granted herein, the amount of One Hundred Seventeen Thousand Five Hundred Thirty Two and No/100 Dollars (\$117,532.00), which shall represent ten percent (10%) of the total amount of this Agreement, shall be payable to Grantee in a lump sum upon the signing of this Agreement and approval of the Grantee’s request for payment and Grantor obtaining the advance written approval of its Chief of Budget. The remainder of the Funds shall be paid to Grantee on a reimbursement basis upon receipt and approval by Grantor of Grantee’s quarterly reports and approval of invoices and other documentation setting forth the expenditure of the Funds in accordance with Exhibit I. Notwithstanding the foregoing, a final payment in the amount of One Hundred Seventeen Thousand Five Hundred Thirty Two and No/100 Dollars (\$117,532.00), which shall represent ten percent (10%) of the total amount of this Agreement, shall be contingent upon Grantor’s approval of the final report submitted by Grantee. The Grantee shall not pledge the Funds as security for any loan or debt of any kind other than described in this Agreement.

2. Use of Funds. Grantee shall use the Funds granted pursuant to this Agreement and any and all program income, including all fees and interest income generated through the Project, for obligations incurred in the performance of the Agreement. The expenditures shall be supported by contracts, invoices, vouchers, and other data as appropriate, evidencing the costs incurred. If Grantee does not expend the Funds in accordance with the terms, conditions and time period set forth in this Agreement or if the total amount of the Funds and any and all program income exceeds the eligible costs of the Project, Grantee shall return the amounts improperly expended or not expended to Grantor within thirty (30) days after the expiration or termination of this Agreement.

3. Budget Alterations. Grantee may make alterations to any budget line item appearing in Exhibit I that is funded in whole or in part by the Funds granted under this Agreement so long as the changes do not exceed 10% of the total amount granted on a cumulative basis and do not conflict with any other terms or conditions set forth in this Agreement. If the Grantee wishes to alter any such line item, Grantee shall request Grantor's written approval by providing sufficient detail and justification for the requested alteration to the Grantor. Grantor shall not unreasonably withhold such approval. Should the Grantee wish to transfer any portion of the funds into a line item not previously funded in whole or part with Funds granted under this Agreement, or create a new line item, then the Grantee must request a formal amendment to the Agreement prior to making any expenditures related to the line item in question. Alterations to any line item shall not increase the amount of funds granted under this Agreement as set forth in Section 1. Grantor shall respond to the Grantee's request in writing within a reasonable period of time.

4. Conditions. Grantee shall undertake the activities in accordance with Exhibit I and Exhibit II. Grantor and Grantee agree that Exhibit I and Exhibit II, where applicable, shall govern the authorization of payment under this Agreement. In addition, Grantee shall be responsible for the following:

- a. Performing the Project as set forth in Exhibit I;
- b. Maintaining its headquarters and/or a substantial portion of its workforce in the State of Ohio during the Term of this Agreement;
- c. Collaborating with other State of Ohio Programs and State of Ohio Program Grantees that are not in direct competition with the Grantee that provide similar and related activities, as outlined in Exhibit I and Exhibit II;
- d. Utilizing the Funds to realize an economic benefit for the State of Ohio, as outlined in Exhibit I and Exhibit II.

Should the Grantee fail to perform any of the items listed above, the Grantee shall be required to repay the Funds to the Grantor, as determined by the Grantor, and as more fully set forth in Section 16. These provisions are not intended to restrict any other terms and conditions set forth in this Agreement.

5. Intellectual Property. The Grantor does not retain any rights or title to intellectual property emanating from this Project.

6. Cost Share Commitments and Expenditures. The minimum Cost Share requirement for this Project is \$1 of Cost Share for every \$2 provided by the Grantor. The Cost Share, as defined in Exhibit III, "Cost Share Guidelines," which is attached hereto and made a part hereof, may be either cash or in-kind and must be included in Exhibit I of this Agreement. The amount of Cost Share listed in Exhibit I of this Agreement will be those costs identified and obligated as Cost Share as part of the Project. The Cost Share does not have to flow through the

books of the Grantee. However, the Grantee is responsible for documenting and ensuring that all the resources pledged to the Project are delivered. All Cost Share commitments shall be in accordance with the guidelines set forth in Exhibit III. If the Grantee determines or has reason to believe that a Cost Share commitment will not be honored as set forth under the terms of this Agreement, the Grantee shall notify the Grantor. If the Grantee is not able to provide the complete Cost Share commitment in accordance with Exhibit I, Grantor may terminate this Agreement pursuant to Section 16 of this Agreement or reduce the amount of Funds granted to the Grantee under this Agreement.

7. Accounting of Funds. The Funds and any and all program income therefrom shall be deposited and maintained in a separate account upon the books and records of Grantee (the "Account"). Grantee shall keep all records of the Account in a manner consistent with generally accepted accounting principles. All disbursements from the Account shall be for obligations incurred in the performance of this Agreement and shall be supported by contracts,, invoices, vouchers, and other data, as appropriate, evidencing the necessity of such expenditure. Failure to comply with this requirement may allow Grantor to withhold payment allocation requests until such compliance is demonstrated.

8. Project Completion. The Project shall be completed not later than December 15, 2005, (the "Project Completion Date"). If it is anticipated that the Grantee will not have completed the Project by the Project Completion Date, Grantee must request an extension of time for the Project Completion Date at least sixty (60) days before the Project Completion Date, unless otherwise agreed upon by Grantor. It will be within the sole discretion of the Grantor to grant such extension of time.

9. Term. The parties agree that the term of this Agreement shall be from December 15, 2003 to three (3) years from the date of final approval by the Grantor of the Final Report required in section 13c. of this Agreement (the "Term of the Agreement") unless either date is changed or the Agreement is terminated in accordance with the provisions of this Agreement. The Grantor shall not unreasonably withhold approval of the Final Report.

10. Maintenance of Records. Grantee shall establish and maintain for at least three (3) years from the expiration or termination of this Agreement such records as are required by Grantor, including but not limited to, financial reports, intake and participant information, and all other relevant information. The parties further agree that records required by Grantor with respect to any questioned costs, audit disallowances, litigation or dispute between Grantor and Grantee shall be maintained for the time needed for the resolution of said question and that in the event of early termination of this Agreement, or if for any other reason Grantor shall require a review of the records related to the Project, Grantee shall, at its own cost and expense, segregate all such records related to the Project from its other records of operation.

11. Access and Audit. At any time during normal business hours upon three (3) days written notice and as often as Grantor may deem necessary and in a manner as not to unreasonably interfere with the normal business operation of Grantee, Grantee shall make available to Grantor or its designee, for examination, and to appropriate state agencies, officials or designees, all of its records with respect to matters covered by this Agreement. Grantee shall

permit Grantor or its designee to audit, examine and make excerpts or transcripts from such records.

12. Property and Equipment Purchases. All items with a useful life of more than one year and a value greater than \$1,000.00 purchased by Grantee from the Funds granted herein are and shall remain the property of Grantee unless Grantee defaults in the performance of the terms and conditions of this Agreement and/or this Agreement is terminated pursuant to Section 16 of this Agreement. If Grantee defaults in the performance of the terms and conditions of this Agreement and/or this Agreement is terminated pursuant to Section 16 of this Agreement, all property and equipment with a useful life of one year and a value greater than \$1,000.00 purchased by Grantee with any funds herein granted shall revert to Grantor. Grantee shall provide for the security and safekeeping of all items obtained through this Agreement.

13. Reports. Grantee shall submit the following reports to Grantor:

a). Quarterly Progress Reports. Grantee shall deliver to the Grantor within thirty (30) days after the end of each calendar year quarter of this Agreement a progress report covering the Grantee's activities on the Project during the preceding quarter, including the goals accomplished and milestones met, and progress on those items set forth in Section 4 of this Agreement.

b). Quarterly Financial Reports. Grantee shall deliver to the Grantor within thirty (30) days after the end of each calendar year quarter of this Agreement, a financial statement of its sources and uses of funds, including the use of applicable matching funds for such quarterly period and the Project to date;

c). Final Report. A final report shall be submitted by Grantee thirty (30) days after the Project Completion Date. Grantor may determine that the concluding quarterly progress report constitutes a final report.

d). Annual Reports after Project Completion Date. Grantee shall deliver to the Grantor an annual follow-up report of the Project due on the 30th of September every year thereafter starting the first year after the Project Completion Date and for two years thereafter. This report will cover the prior calendar year's activities of the Grantee.

e). Format of Reports. Grantor reserves the right to design the format for the submission of the reports required within this Section.

f). Additional Information. Grantor reserves the right to require any other documentation that may supplement the explanation or tracking of data as it relates to the activities set forth in Exhibit I. Such documentation may include, but is not limited to, reports, spreadsheets and databases whether in electronic or paper form. With reasonable promptness Grantee shall supply Grantor with such other data and information pertaining to the Grantee's activities as from time to time may be reasonably requested. It is agreed that any reasonable cost incurred in connection with the preparation and delivery of such

requested data and other information as mentioned herein shall constitute eligible costs, but shall not constitute the matching funds commitment on the Grantee's behalf.

14. Notice of Default. In the event Grantee fails to perform any requirements of this Agreement or fails to complete the Project as set forth in Exhibit I, the Grantor shall terminate this Agreement after providing Grantee with written notice, in accordance with the notice provisions of this Agreement, (the "Notice"). The Notice shall itemize the defaults and provide Grantee with a forty-five (45) day period (the "Cure Period") to cure any and all defaults under this Agreement as set forth in the Notice. During the Cure Period, Grantee shall incur only those obligations or expenditures, which are pre-approved by Grantor, and, which are necessary to enable Grantee to continue its operation and achieve compliance as set forth in the Notice. If, during the Cure Period, the Grantee determines that it will be unable to complete the Project as set forth in Exhibit I, and the Grantee has not received all of the Funds, the Grantee may, prior to the expiration of the Cure Period, present to the Grantor its proposed changes to the Project (hereinafter the Project with proposed changes shall be referred to as the "Revised Project").

15. Consideration of Revised Project. If Grantee submits a Scope of Work for the Revised Project prior to the expiration of the Cure Period, the Grantor, in its sole discretion, shall either approve or reject the Revised Project.

- (A) If the Revised Project is approved by the Grantor, then such approval shall be deemed to constitute a cure of the default by the Grantee, and an amendment shall be executed between the Grantor and the Grantee acknowledging that this Agreement shall be for the payment of Funds for completion of the Revised Project.
- (B) If the Revised Project is rejected by the Grantor, then this Agreement shall be terminated as set forth in Section 16.

16. Failure to Cure Default; Termination. In the event that Grantee is not able to cure the defaults as itemized in the Notice in accordance with Section 14, or if the Revised Project is rejected by Grantor in accordance with Section 15(B), then this Agreement shall be terminated, and the Grantee shall (a) forfeit any unused balance of the Funds; (b) repay the Funds already disbursed to Grantee plus interest at the per annum rate equal to three percent (3%) over that rate of interest from time to time announced by Bank One N.A. as its "prime rate", to the Grantor; and (c) provide to Grantor within sixty (60) days after termination of this Agreement, a Closeout Report setting forth the total expenditure of the Funds by Grantee and the status of the Project at the time of termination. In no event shall Grantee be required to return an amount in excess of the total Funds granted under this Agreement.

17. Termination by Grantee. Upon written approval by the Grantor, Grantee may terminate this Agreement upon ninety (90) days written notice to the Grantor if circumstances beyond its control preclude continuation of the Project. Within sixty (60) days after termination of this Agreement under this section, Grantee shall provide Grantor with a Closeout Report setting forth the total expenditure of the Funds by Grantee and the status of the Project at the time of termination. In addition, the Grantor shall reimburse Grantee for all allowable expenses

as set forth in Exhibit I as well as noncancellable commitments incurred as of the date of termination but not to exceed the total amount of the Funds.

18. Forbearance Not a Waiver. No act of forbearance or failure to insist on the prompt performance by Grantee of its obligations under this Agreement, either express or implied, shall be construed as a waiver by Grantor of any of its rights hereunder.

19. Equal Employment Opportunity. In performing this Agreement, Grantee shall not discriminate against any employee, applicant for employment or other person because of race, religion, color, sex, national origin, disability, age, veteran status, or ancestry. Grantee will take affirmative action to ensure that applicants are employed and that employees are treated during their employment without regard to race, religion, color, sex, national origin, disability, age, veteran status, or ancestry. Grantee shall incorporate the foregoing requirements of this paragraph in all of its contracts for any of the work prescribed herein (other than subcontracts for standard commercial supplies or raw materials), and will require all of its subcontractors for any part of such work to incorporate such requirements in all such subcontracts.

20. Certification of Funds Available. None of the rights, duties, and obligations described in this Agreement shall be binding upon either party until all statutory provisions of the Ohio Revised Code, including but not limited to Section 126.07, have been complied with, and until such time as all necessary funds have actually been made available and forthcoming from the appropriate state agencies.

21. Conflict of Interest. No personnel of Grantee, any subcontractor of Grantee, public official, employee or member of the governing body of the particular locality where this Agreement shall be completed, who exercises any functions or responsibilities in connection with the review or approval of the work completed under this Agreement, shall prior to the completion of said work, voluntarily or involuntarily acquire any personal interest, direct or indirect, which is incompatible or in conflict with the discharge or fulfillment of his functions or responsibilities with respect to the completion of the work contemplated under this Agreement. Any person who, prior to or after the execution of this Agreement, acquires any personal interest, involuntarily or voluntarily, shall immediately disclose his interest to Grantor in writing. Thereafter, such person shall not participate in any action affecting the work under this Agreement unless Grantor determines that, in light of the personal interest disclosed, his participation in any such action would not be contrary to the public interest.

22. Indemnification. To the extent permitted by law, Grantee agrees to hold Grantor harmless from any and all liabilities or claims caused by or resulting from Grantee's performance of the obligations or activities in furtherance of the Project. Grantee will reimburse Grantor for any judgments arising from Grantee's actions or inaction, which may be obtained against Grantor, including, but not limited to, judgments for infringements of patents or copyrights. Grantee agrees to reimburse Grantor for all costs incurred by Grantor in defending any such claims or legal actions if called upon by Grantor to do so.

23. Adherence to State and Federal Laws, Regulations. Grantee agrees to comply with all applicable federal, state, and local laws in the performance of the Project. Grantee

accepts full responsibility for payments of all unemployment compensation, insurance premiums, workers' compensation premiums, all income tax deductions, social security deductions, and any and all other taxes or payroll deductions required for all employees engaged by Grantee on the performance of the work authorized by this Agreement.

24. Outstanding Liabilities. Grantee affirmatively covenants that it does not owe: (1) any delinquent taxes to the State of Ohio (the "State") or a political subdivision of the State; (2) any moneys to the State or a state agency for the administration or enforcement of any environmental laws of the State; and (3) any other moneys to the State, a state agency or a political subdivision of the State that are past due, whether the amounts owed are being contested in a court of law or not.

25. Falsification of Information. Grantee affirmatively covenants that it has made no false statements to Grantor in the process of obtaining this grant of Funds. If Grantee has knowingly made a false statement to Grantor to obtain this grant of Funds, Grantee shall be required to return all Funds immediately pursuant to Ohio Revised Code Section 9.66(C)(2) and shall be ineligible for any future economic development assistance from the State, any state agency or a political subdivision pursuant to O.R.C. Section 9.66(C)(1). Any person who provides a false statement to secure economic development assistance may be guilty of falsification, a misdemeanor of the first degree, pursuant to O.R.C. 2921.13(D)(1), which is punishable by a fine of not more than \$1,000.00 and/or a term of imprisonment of not more than six months.

26. Unresolved Findings. Grantee warrants that it is not subject to an unresolved finding for recovery under O.R.C. 9.24. If this warranty is deemed to be false, this Agreement is void ab initio and the Grantee must immediately repay to the Grantor any funds paid under this Agreement.

27. Miscellaneous.

a). Governing Law. This Agreement shall be governed by the laws of the State of Ohio as to all matters, including but not limited to matters of validity, construction, effect and performance.

b). Forum and Venue. All actions regarding this Agreement shall be forumed and venued in a court of competent subject matter jurisdiction, in Franklin County, Ohio.

c). Entire Agreement. This Agreement and its exhibits and any documents referred to herein constitute the complete understanding of the parties and merge and supersede any and all other discussions, agreements and understandings, either oral or written, between the parties with respect to the subject matter hereof.

d). Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law,

such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions of this Agreement.

e). Confidentiality. All information submitted to Grantor shall be considered public information and shall be released if requested unless a statutory exception prohibits its release. Grantee hereby acknowledges and agrees that Grantor may, during the life of this Agreement and thereafter, acquire information from Grantee which may be a trade secret as defined in Ohio Revised Code Section 1333.61. Grantor shall comply with all provisions of R.C. 1333.61 in its use of any information acquired from Grantee.

f). Subcontractors/Subgrantees. At Grantee's election, Grantee may subcontract and/or subgrant portions of the work or activities described in Exhibit I, "Scope of Work." All subcontracts or subgrants shall be bound by the terms of this Agreement. However, in any event, Grantee shall be solely responsible for performance of the work and activities set forth herein.

g). Survival. All indemnities, covenants, agreements representations and guaranties made in this Agreement and in any certificates or other documents delivered pursuant hereto shall survive the execution of this Agreement and shall benefit the respective permitted successors and assigns of the parties hereto, unless superseded by another section of this Agreement.

h). Publication. Grantee reserves the right to publish the results of any work performed under this Agreement. Any publication, study or report prepared by the Grantee or its agents as part of this Grant or using information generated through this Grant shall include the following disclaimer statement: "This publication (study or report) was prepared under contract with the State of Ohio with financial support from the Ohio Department of Development. The content reflects the views of Superconductive Components dba SCI Engineered Materials and does not necessarily reflect the views of the State of Ohio, Department of Development."

i.) Record Retention. Subject to any State laws or regulations, including but not limited to, Chapters 149 and 1347 of the Revised Code, Grantor agrees to, upon expiration or termination of this Agreement, return to Grantee any confidential documents or certify to Grantee that such confidential documents have been destroyed.

j). Notices. All notices, consents, demands, requests and other communications which may or are required to be given hereunder shall be in writing and shall be deemed duly given if personally delivered or sent by United States mail, registered or certified, return receipt requested, postage prepaid, to the addresses set forth hereunder or to such other address as the other party hereto may designate in written notice transmitted in accordance with this provision.

- 1). In case of Grantor, to:

Grants Administration
Ohio Department of Development
Technology Division
77 South High Street, 25th Floor
Columbus, Ohio 43215-6130

- 2). In case of Grantee, to:

Dan Rooney
President & CEO
Superconductive Components, Inc.
dba SCI Engineered Materials
1145 Chesapeake Avenue
Columbus, Ohio 43212

FTI Number: 31-1210318 ADD Code: 01

k). Amendments or Modifications. Either party may at any time during the term of this Agreement request amendments or modifications. Requests for amendment or modification of this Agreement shall be in writing and shall specify the requested changes and the justification of such changes. The parties shall review the request for modification in terms of the regulations and goals relating to the Project. Should the parties consent to modification of the Agreement, then an amendment shall be drawn, approved, and executed in the same manner as the original agreement.

l). Pronouns. The use of any gender pronoun shall be deemed to include all the other genders, and the use of any singular noun or verb shall be deemed to include the plural, and vice versa, whenever the context so requires.

m). Headings. Section headings contained in this Agreement are inserted for convenience only and shall not be deemed to be a part of this Agreement.

n). Assignment. Neither this Agreement nor any rights, duties, or obligations described herein shall be assigned or subcontracted by Grantee without the prior express written consent of Grantor.

o). Travel Expenses. If contemplated under this Agreement, Grantee, its employees or agents, shall be reimbursed for travel expenses in amounts not to exceed the maximum rates as determined by Ohio Administrative Code Section 126-1-02.

IN WITNESS WHEREOF, the parties hereto have executed this Grant Agreement on the last date set forth below.

GRANTEE:

Superconductive Components, Inc.
dba SCI Engineered Materials

By: _____

Title: _____

Date: _____

GRANTOR:

State of Ohio
Department of Development

By: _____

Bruce Johnson
Director

Date: _____

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8, Registration Numbers 333-97583 and 333-67212, of Superconductive Components, Inc. of our report dated February 23, 2004, except for Note 14, as to which the date is March 4, 2004, relating to the financial statements which appear in the Company's Form 10-KSB for the year ended December 31, 2003.

/s/ Hausser + Taylor LLC

Columbus, Ohio
March 26, 2004

POWER OF ATTORNEY

Each of the undersigned officers and/or directors of Superconductive Components, Inc., an Ohio corporation (the "Company"), hereby appoints Daniel Rooney and Curtis A. Loveland as his or her true and lawful attorneys-in-fact, or any of them individually with power to act without the other, as his or her true and lawful attorney-in-fact, in his or her name and on his or her behalf, and in any and all capacities stated below, to sign and to cause to be filed with the Securities and Exchange Commission the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003, and any and all amendments thereto, hereby granting unto said attorneys, and to each of them, full power and authority to do and perform in the name and on behalf of the undersigned, in any and all such capacities, every act and thing whatsoever necessary to be done in and about the premises as fully as each of the undersigned could or might do in person, hereby granting to each such attorney full power of substitution and revocation, and hereby ratifying all that any such attorney or his substitute may do by virtue hereof.

IN WITNESS WHEREOF, the undersigned have executed this Power of Attorney in counterparts if necessary, effective as of March 26, 2004.

<i>Signature</i>	<i>Title</i>
<u>/s/ Daniel Rooney</u> Daniel Rooney	President, Chief Executive Officer and Chairman of the Board of Directors and Director (principal executive officer)
<u>/s/ Gerald S. Blaskie</u> Gerald S. Blaskie	Chief Financial Officer (principal financial officer and principal accounting officer)
<u>/s/ Robert J. Baker, Jr.</u> Robert J. Baker, Jr.	Director
<u>/s/ Edward W. Ungar</u> Edward W. Ungar	Director

**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 annual report on Form 10-KSB of Superconductive Components, Inc.;
2. Based on my knowledge, this annual 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 small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officers 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)) for the small business issuer 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 small business issuer, 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) [reserved];
 - c) evaluated the effectiveness of the small business issuer'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 small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: March 26, 2004

/s/ Daniel Rooney
Daniel Rooney
President and Chief 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 annual report on Form 10-KSB of Superconductive Components, 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 small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officers 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)) for the small business issuer and we 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 small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) [reserved];
 - c) evaluated the effectiveness of the small business issuer'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 small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent function):
 - 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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: March 26, 2004

/s/ Gerald S. Blaskie
Gerald S. Blaskie
Chief Financial 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 Annual Report of Superconductive Components, Inc. (the "Company") on Form 10-KSB for the period ending December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel Rooney, 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
President and Chief Executive Officer of
Superconductive Components, Inc.
March 26, 2004

**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 Annual Report of Superconductive Components, Inc. (the "Company") on Form 10-KSB for the period ending December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gerald S. Blaskie, 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
Chief Financial Officer of
Superconductive Components, Inc.
March 26, 2004