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FORM 10-K

SUPERCONDUCTOR TECHNOLOGIES INC - SCON

Filed: March 17, 2010 (period: December 31, 2009)

Annual report which provides a comprehensive overview of the company for the past year

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

**FORM 10-K
ANNUAL REPORT
PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended December 31, 2009

OR

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

Commission File Number 0-21074

SUPERCONDUCTOR TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

77-0158076
*(IRS Employer
Identification No.)*

460 Ward Drive, Santa Barbara, California 93111-2310

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(805) 690-4500**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common stock, \$0.001 par value

The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes or No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes or No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, 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-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

The aggregate market value of the common stock held by non-affiliates was \$48.4 million as of June 27, 2009 (the last business day of our most recently completed second fiscal quarter). The closing price of the common stock on that

date was \$3.76 as reported by the NASDAQ Capital Market. For purposes of this determination, we excluded the shares of common stock held by each officer and director and by each person who was known to us to own 10% or more of the outstanding common stock as of June 27, 2009. The exclusion of shares owned by the aforementioned individuals and entities from this calculation does not constitute an admission by any of such individuals or entities that he or it was or is an affiliate of ours.

We had 22,330,051 shares of common stock outstanding as of the close of business on March 1, 2010.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12, 13 and 14 of Part III incorporate information by reference from the definitive proxy statement for the Registrant's 2010 Annual Meeting of Stockholders.

SUPERCONDUCTOR TECHNOLOGIES INC.

FORM 10-K ANNUAL REPORT
Year Ended December 31, 2009

Unless otherwise noted, the terms “we,” “us,” “our” refer to the combined and ongoing business operations of Superconductor Technologies Inc. and its subsidiaries

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We claim the protection of the safe harbor contained in the Private Securities Litigation Reform Act of 1995 for these forward looking statements. Our forward-looking statements relate to future events or our future performance and include, but are not limited to, statements concerning our business strategy, future commercial revenues, market growth, capital requirements, new product introductions, expansion plans and the adequacy of our funding. Other statements contained in this Report that are not historical facts are also forward-looking statements. We have tried, wherever possible, to identify forward-looking statements by terminology such as “may,” “will,” “could,” “should,” “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates” and other comparable terminology.

We caution investors that any forward-looking statements presented in this Report, or that we may make orally or in writing from time to time, are based on the beliefs of, assumptions made by, and information currently available to, us. Such statements are based on assumptions and the actual outcome will be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control or ability to predict. Although we believe that our assumptions are reasonable, they are not guarantees of future performance and some will inevitably prove to be incorrect. As a result, our actual future results can be expected to differ from our expectations, and those differences may be material. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on known results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include the following:

- limited cash and a history of losses;*
- limited number of potential customers;*
- limited number of suppliers for some of our components;*
- no significant backlog from quarter to quarter;*
- our market is characterized by rapidly advancing technology;*
- fluctuations in product demand from quarter to quarter can be significant;*
- the impact of competitive filter products, technologies and pricing;*
- manufacturing capacity constraints and difficulties; and*
- general economic conditions, such as the current worldwide recession.*

For further discussion of these and other factors see, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors” in this Report.

This Report and all subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Report.

PART I

ITEM 1. BUSINESS

General

We are a leading company in high temperature superconductor (“HTS”) materials and related technologies. HTS materials have the unique ability to conduct various signals or energy (e.g., electrical current or radio frequency (“RF”) signals) with little or no resistance when cooled to “critical” temperatures. Electric currents that flow through conventional conductors encounter resistance that requires power to overcome and generates heat. HTS materials can substantially improve the performance characteristics of electrical systems, reducing power loss, lowering heat generation and decreasing electrical noise. Circuits designed to remove interference inherent in some RF signals can also be made from HTS materials. Commercial use of HTS materials requires a number of cutting edge technologies, including development of HTS materials, specialized manufacturing expertise to create uniform thin layers of these materials, expert designs of circuits optimized for HTS materials, and technologies to maintain an extremely low temperature environment for HTS applications (although the critical temperatures for HTS are “high” compared with traditional superconductors, they are still extremely cold by other standards).

Our Proprietary Technology

We are focused on research and development to maintain our technological edge. As of December 31, 2009, we had 34 employees in our research and development division; 9 of our employees have Ph.D.s, and 14 others hold advanced degrees in physics, materials science, electrical engineering and other fields. Our development efforts over the last 22 years have yielded an extensive patent portfolio as well as critical trade secrets, unpatented technology and proprietary knowledge. We enter into confidentiality and non-disclosure agreements with our employees, suppliers and consultants to protect our proprietary information. As of December 31, 2009, we held 59 U.S. patents in the following categories:

- 8 patents for technologies directed toward producing thin-film materials and structures, which expire between 2010 and 2025. We have developed a proprietary state-of-the-art manufacturing process for producing HTS thin-films of the highest quality.
- 32 patents for cryogenic and non-microwave circuit designs, which expire between 2010 and 2028. The expertise of our highly qualified team has allowed us to design and fabricate extremely small, high-performance circuits including RF signal filters.
- 17 patents covering cryogenics, packaging and systems, which expire between 2013 and 2025. Our proprietary and patented cryogenic packaging innovation provides us with a significant competitive advantage in maintaining our HTS materials at their critical temperatures.
- 2 patents covering other superconducting technologies, which expire between 2013 and 2015.

As of December 31, 2009, we also had 19 issued foreign patents, 21 U.S. patent applications pending and 60 foreign applications patents pending.

We are currently focusing our efforts on applications in areas such as:

- *Wireless Networks.* Our current commercial products help maximize the performance of wireless telecommunications networks by improving the quality of uplink signals from mobile wireless devices. Our products increase capacity utilization, lower dropped and blocked calls, extend coverage, and enable higher wireless data throughput — all while reducing capital and operating costs. We are leveraging our unique filtering technology to pursue wireless business on multiple fronts: capturing wireless business with tier one U.S. wireless carriers for the LTE network build out, and developing our advanced reconfigurable filtering technology, which has the potential to drastically reduce the size and cost of mobile devices.
- *Superconducting Power Applications.* We are adapting our unique HTS materials deposition techniques to deliver energy efficient, cost-effective and high performance 2G HTS wire technology for next generation power applications. A variety of large, high potential, initial target markets have been identified for our 2G

HTS wire including: energy (wind turbines, smart grid), industrial (motors, generators) and healthcare (MRI) applications. To accelerate development and manufacturing processes for our 2G HTS wire, we are partnering with HTS industry leaders, United States National Labs and the U.S. Department of Energy (“DOE”). In August 2009, we renewed our two year Cooperative Research and Development Agreement with Los Alamos National Laboratory (“LANL”). These technological interchanges will help us meet the technical challenges and performance metrics for both high performance and cost effective 2G HTS wire.

- *Government Products.* As the worldwide leader in developing tunable HTS filter systems for military applications, we continue to be a crucial partner in the U.S. government’s future success. Our high-performance HTS filter systems have been proven to increase the detection range, reduce interference, and in some cases, detect signals that were previously undetectable with conventional technology. Currently, we actively participate in the development of technologies for application in military communications, signals intelligence, and electronic warfare.

Our development efforts can take a significant number of years to commercialize, and we must overcome significant technical barriers and deal with other significant risks, some of which are set out in our public filings, including in particular the “Risk Factors” included in Item 1A of this Report.

Our Business Model

To be successful, we must use our expertise and our technology to generate revenues in various ways, including government contracts, commercial operations, joint ventures and licenses:

Government Contracts

We generate significant revenues from government contracts. For 2009, 2008 and 2007, government related contracts accounted for 32%, 40% and 29%, respectively, of our net revenues. We typically own the intellectual property developed under these contracts, and grant the Federal government a royalty-free, non-exclusive and nontransferable license to use it. As a result, our government contracts can not only generate a profit for us, but we can also make additional money through exploiting of the resulting technology in our commercial operations as well as government products, or through licenses or joint ventures. Contracts with the U.S. government contain provisions, and are subject to laws and regulations, that give the government rights and remedies not typically found in commercial contracts, including rights that allow the government to:

- terminate existing contracts for convenience, which affords the U.S. government the right to terminate the contract in whole or in part any time it wants for any reason or no reason, as well as for default;
- reduce or modify contracts or subcontracts, if its requirements or budgetary constraints change;
- cancel or reduce multi-year contracts and related orders, if funds for contract performance for any subsequent year become unavailable;
- adjust reimbursable contract costs and fees on the basis of audits completed by its agencies through exercise of its oversight rights; and
- control or prohibit the export of products.

Compensation in the event of a termination, if any, is limited to compensation for work completed at the time of termination. In the event of termination for convenience, we may receive a certain allowance for profit on the work performed.

Commercial Applications

We have chosen to manufacture and sell certain commercial products on our own. To date, our commercial efforts have been focused on the design, manufacture, and sale of high performance infrastructure products for

wireless voice and data applications. We have three current product lines, all of which relate to wireless base stations:

- SuperLink[®], a highly compact and reliable receiver front-end HTS wireless filter system to eliminate out-of-band interference for wireless base stations, combining filters with a proprietary cryogenic cooler and a cooled low-noise amplifier.
- AmpLink[®], a ground-mounted unit for wireless base stations that includes a high-performance amplifier and up to six dual duplexers.
- SuperPlex, a high-performance multiplexer that provides extremely low insertion loss and excellent cross-band isolation designed to eliminate the need for additional base station antennas and reduce infrastructure costs.

We sell most of our current commercial products to a small number of wireless carriers in the United States, including Alltel, AT&T, Sprint Nextel, T-Mobile and Verizon Wireless. Verizon Wireless and AT&T each accounted for more than 10% of our commercial revenues in 2009, 2008 and 2007. We are seeking to expand our customer base by selling directly to other wireless network operators and manufacturers of base station equipment, including internationally. Demand for wireless communications equipment fluctuates dramatically and unpredictably. The wireless communications infrastructure equipment market is extremely competitive and is characterized by rapid technological change, new product development, product obsolescence, evolving industry standards and price erosion over the life of a product. We face constant pressures to reduce prices. Consequently, we expect the average selling prices of our products will continue decreasing over time. We expect these trends to continue and may cause significant fluctuations in our quarterly and annual revenues. Our commercial operations are subject to a number of significant risks, some of which are set out in our public filings, including in particular the “Risk Factors” included in Item 1A of this Report.

Joint Ventures

From time to time we may pursue joint ventures with other entities to commercialize our technology. In particular, we have agreed to license certain technology for our SuperLink interference elimination solution for the China market to a joint venture where we own 45 percent of the equity. In 2008, we received orders from the joint venture for our new TD-SCDMA solution to perform lab and field trial activities in China. The lab and field trial was successfully completed in 2008 and in 2009 we successfully completed field trials in the existing China 2G market using our SuperLink solution. In 2009, we recorded a \$521,000 loss for impairment of our investment in the joint venture. The commencement of manufacturing and the transfer of our processes to the joint venture will be driven by product demand from the China market. The joint venture’s activities remain subject to successful product marketing efforts in addition to a number of other conditions, including certain critical approvals from the Chinese and United States governments. In particular, we have been in discussions with the United States government concerning the national security implications of our joint venture and investment from Hunchun BaoLi Communication Co. Ltd. (“BAOLI”). There continues to be no assurance that these conditions will be met, or that all required approvals (if obtained) will be obtained on a timely basis. Even if these conditions are met and the approvals received, the results from our joint venture will be subject to a number of significant risks associated with international operations and new ventures, some of which are set forth in our public filings, including in particular the “Risk Factors” included in Item 1A of this Report.

Licenses

From time to time we grant licenses for our technology to other companies. Specifically, we have granted licenses to, among others, (1) Bruker for Nuclear Magnetic Resonance application, (2) General Dynamics for government applications and (3) Star Cryoelectronics for Superconducting Quantum Interference Device applications.

Manufacturing

Our manufacturing process involves the assembly of numerous individual components and precision tuning by production technicians. We purchase inventory components and manufacture inventory based on sales forecasts.

The parts and materials used by us and our contract manufacturers consist primarily of printed circuit boards, specialized subassemblies, fabricated housing, relays and small electric circuit components, such as integrated circuits, semiconductors, resistors and capacitors. We currently manufacture our SuperLink systems at our facilities in Santa Barbara, California. Principal components of our AmpLink and SuperPlex products are produced by foreign manufacturers. Our Santa Barbara facilities currently also house our AmpLink assembly and distribution center.

A number of components used in our products are available from only a limited number of outside suppliers due to unique designs as well as certain quality and performance requirements. There are components that we source from a single vendor due to our current production volume. In addition, key components of our conventional products are manufactured by a sole foreign manufacturer. We do not have guaranteed supply arrangements with any of these suppliers, do not maintain an extensive inventory of parts or components and customarily purchase sole or limited source parts and components pursuant to purchase orders. Our reliance on sole or limited source suppliers involves certain risks and uncertainties, many of which are beyond our control, and some of which are set out in our public filings, including in particular the “Risk Factors” included in Item 1A of this Report.

Marketing and Sales

Because we have a concentrated customer base, we primarily sell using a direct sales force in the U.S. We use indirect channels to market our products to select customers internationally. We demonstrate our products at trade shows, and participate in industry conferences. We also use advertising campaigns, email campaigns, direct mailings, and submission of technical and application reports to recognized trade journals to advertise our solutions to potential customers. We also advertise our products through our website, brochures, data sheets, application notes, trade journal reports and press releases. Our sales and marketing efforts are complemented by a team of sales applications engineers who manage field trials and initial installations, as well as provide ongoing pre-sales and post-sales support.

Competition

We face competition in various aspects of our technology and product development. Our products compete on the basis of performance, functionality, reliability, pricing, quality, and compliance with industry standards. Our current and potential competitors include conventional RF filter manufacturers, including CommScope, ADC, Powerwave, and RFS and both established and newly emerging companies developing similar or competing HTS technologies. We also compete with companies that design, manufacture and sell antenna-optimizing multiplexers and companies that seek to enhance base station range and selectivity by means other than a superconducting filter, including many original equipment manufacturers such as Ericsson and Nokia. In addition, we currently supply components and license technology to several companies that may eventually decide to manufacture or design their own HTS components, rather than purchasing or licensing our technology. With respect to our HTS materials, we compete with American Superconductor, SuperPower and THEVA, among others. In the government sector, we compete with universities, national laboratories and both large and small companies for research and development contracts, and with larger defense contractors, such as Raytheon and Northrop Grumman, for government products.

Research and Development

Our research and development efforts primarily involve engineering and design related to improving product lines and developing new products and technologies in the same or similar fields using our core technologies. We spent a total of \$7.0 million, \$7.0 million and \$6.1 million on research and development for 2009, 2008 and 2007, respectively, of which \$4.4 million, \$3.4 million and \$3.2 million, respectively, was for company-funded research and development. Customer-funded research and development, most of which was attributable to work under contracts with the U.S. Government, represented 37%, 52% and 48% of total research and development costs for each of 2009, 2008 and 2007, respectively.

Environmental Issues

We use certain hazardous materials in our research, development and manufacturing operations. As a result, we are subject to stringent federal, state and local regulations governing the storage, use and disposal of such materials. Current or future laws and regulations could require substantial expenditures for preventative or remedial action, reduction of chemical exposure, waste treatment or disposal. Although we believe that our safety procedures for the handling and disposing of hazardous materials comply with the standards prescribed by state and federal regulations, there is always the risk of accidental contamination or injury from these materials. To date, we have not incurred substantial expenditures for preventive action with respect to hazardous materials or for remedial action with respect to any hazardous materials accident, but the use and disposal of hazardous materials involves risk that we could incur substantial expenditures for such preventive or remedial actions. If such an accident were to occur, we could be held liable for resulting damages. The liability in the event of an accident or the costs of such remedial actions could exceed our resources or otherwise have a material adverse effect on our financial condition, results of operations or cash flows.

Corporate Information

Our facilities and executive offices are located at 460 Ward Drive, Santa Barbara, California 93111, and our telephone number is (805) 690-4500. We were incorporated in Delaware on May 11, 1987. Additional information about us is available on our website at www.supotech.com. The information on our web site is not incorporated herein by reference.

Employees

As of December 31, 2009, we had a total of 105 employees. None of our employees are represented by a labor union, and we believe that our employee relations are good.

Backlog

Our commercial backlog consists of accepted product purchase orders with scheduled delivery dates during the next twelve months. We had commercial backlog of \$795,000 at December 31, 2009, compared to \$272,000 at December 31, 2008.

ITEM 1A. *RISK FACTORS*

The following section includes some of the material factors that may adversely affect our business and operations. This is not an exhaustive list, and additional factors could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. This discussion of risk factors includes many forward-looking statements. For cautions about relying on such forward looking statements, please refer to the section entitled "Forward Looking Statements" at the beginning of this Report immediately prior to Item 1.

Risks Related to Our Business

We have a history of losses and may never become profitable.

In each of our last five years, we have experienced significant net losses and negative cash flows from operations. In 2009, we incurred a net loss of \$13.0 million and had negative cash flows from operations of \$7.4 million. In 2008, we incurred a net loss of \$12.7 million and had negative cash flows from operations of \$12.1 million. Our independent registered public accounting firm has included in its audit reports an explanatory paragraph expressing doubt about our ability to continue as a going concern. If we fail to increase our revenues, we may not achieve and maintain profitability and may not meet our expectations or the expectations of financial analysts who report on our stock.

The current worldwide recession may adversely affect our business, operating results and financial condition.

The United States economy has recently experienced, and continues to experience, a financial downturn, with some financial and economic analysts predicting that the world economy may be entering into a prolonged economic downturn characterized by high unemployment, limited availability of credit, increased rates of default and bankruptcy and decreased consumer and business spending. These developments could negatively affect our business, operating results and financial condition in a number of ways. For example, current or potential customers may delay or decrease spending with us or may not pay us, or may delay paying us for previously purchased products. In addition, this downturn has had, and may continue to have, an unprecedented negative impact on the global credit markets. Credit has tightened significantly in the last several months, resulting in financing terms that are less attractive to borrowers, and in many cases, the unavailability of certain types of debt financing. If this crisis continues or worsens, and if we are required to obtain financing in the near term to meet our working capital or other business needs, we may not be able to obtain that financing. Further, even if we are able to obtain the financing we need, it may be on terms that are not favorable to us, with increased financing costs and restrictive covenants.

We may need to raise additional capital, and if we are unable to raise capital our ability to implement our current business plan and ultimately our viability as a company could be adversely affected.

At December 31, 2009 we had \$10.4 million in cash. Our cash resources, together with our line of credit, may not be sufficient to fund our business for at least the next twelve months. We believe the key factors to our future liquidity will be our ability to successfully use our expertise and our technology to generate revenues in various ways, including commercial operations, government contracts, joint ventures and licenses. Because of the uncertainty of these factors, we may need to raise funds to meet our working capital needs.

We cannot assure you that additional financing will be available on acceptable terms or at all. If we issue additional equity securities to raise funds, the ownership percentage of our existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise any needed funds, we might be forced to make further substantial reductions in our operating expenses, which could adversely affect our ability to implement our current business plan and ultimately our viability as a company.

We rely on a small number of customers for the majority of our commercial revenues, and the loss of any one of these customers, or a significant loss, reduction or rescheduling of orders from any of these customers, could have a material adverse effect on our business, results of operations and financial condition.

We sell most of our products to a small number of wireless carriers. We derived 92% of our commercial product revenues from Verizon Wireless and AT&T in both 2009 and 2008. We derived 75% of our commercial product revenues from Verizon Wireless and AT&T in 2007. Our future success depends upon the wireless carriers continuing to purchase our products, and fluctuations in demand from such customers could negatively impact our results. Unanticipated demand fluctuations can have a negative impact on our revenues and business and an adverse effect on our results of operations and financial condition.

In addition, our dependence on a small number of major customers exposes us to numerous other risks, including:

- a slowdown or delay in the deployment, upgrading or improvement of wireless networks by any one customer could significantly reduce demand for our products;
- reductions in a single customer's forecasts and demand could result in excess inventories;
- each of our customers has significant purchasing leverage over us to require changes in sales terms including pricing, payment terms and product delivery schedules; and

- concentration of accounts receivable credit risk, which could have a material adverse effect on our liquidity and financial condition if one of our major customers declared bankruptcy or delayed payment of their receivables.

Many of our customers also provide minimal lead-time prior to the release of their purchase orders and have non-binding commitments to purchase from us. If we fail to forecast our customer's demands accurately, we could experience delays in manufacturing, which could result in customer dissatisfaction. Additionally, these factors further impact our ability to forecast future revenue.

We face competition with respect to various aspects of our technology and product development.

Our current products compete on the basis of performance, functionality, reliability, pricing, quality, and compliance with industry standards. Our current and potential competitors include conventional RF filter manufacturers, CommScope, ADC, Powerwave, and RFS and both established and newly emerging companies developing similar or competing HTS technologies. We also compete with companies that design, manufacture and sell antenna-optimizing multiplexers and companies that seek to enhance base station range and selectivity by means other than a superconducting filter, including many original equipment manufacturers such as Ericsson and Nokia. In addition, we currently supply components and license technology to several companies that may eventually decide to manufacture or design their own HTS components, rather than purchasing or licensing our technology. With respect to our HTS materials, we compete with American Superconductor, SuperPower and THEVA, among others. In the government sector, we compete with universities, national laboratories and both large and small companies for research and development contracts, and with larger defense contractors, such as Raytheon and Northrop Grumman, for government products. If we are unable to compete successfully against our current or future competitors, then our business and results of operations will be adversely affected.

The wireless communication industry is highly concentrated, which limits the number of potential customers, and further industry consolidation could result in the loss of key customers.

The wireless communication industry is highly concentrated in nature and may become more concentrated due to anticipated industry consolidation. As a result, we believe that the number of potential customers for our products may be limited. We also face significant risks in the event any of our key customers is acquired by a company that has not adopted our technology or not adopted it to the same extent. In that event, we could face a significant decline in our sales to the acquired customer.

We experience significant fluctuations in sales and operating results from quarter to quarter.

Our quarterly results fluctuate due to a number of factors, including:

- the lack of any contractual obligation by our customers to purchase their forecasted demand for our products;
- variations in the timing, cancellation, or rescheduling of customer orders and shipments; and
- high fixed expenses that may disproportionately impact operating expenses, especially during a quarter with a sales shortfall.

The nature of our business requires that we promptly ship products after we receive orders. This means that we typically do not have a significant backlog of unfilled orders at the start of each quarter. Our major customers generally have no contractual obligation to purchase forecasted amounts and may cancel orders, change delivery schedules or change the mix of products ordered with minimal notice and minimal penalty. As a result of these factors, we may not be able to accurately predict our quarterly sales. Any shortfall in sales relative to our quarterly expectations or any delay of customer orders would adversely affect our revenues and results of operations.

Order deferrals and cancellations by our customers, declining average sales prices, changes in the mix of products sold, increases in inventory and finished goods, delays in the introduction of new products and longer than anticipated sales cycles for our products have, in the past, adversely affected our results of operations. Despite these factors, we maintain significant finished goods, work-in-progress and raw materials inventory to meet estimated order forecasts. If our customers purchase less than the forecasted amounts or cancel or delay existing purchase orders, there will be higher levels of inventory that face a greater risk of obsolescence. If our customers desire to

purchase products in excess of the forecasted amounts or in a different product mix, there may not be enough inventory or manufacturing capacity to fill their orders.

Due to these and other factors, our past results may not be reliable indicators of our future performance. Future revenues and operating results may not meet the expectations of stock analysts and investors. In either case, the price of our common stock could be materially adversely affected.

Our sales cycles are unpredictable, making future performance uncertain.

The sales cycle for telecommunications products includes identification of decision makers within the customers' organizations, development of an understanding of customer-specific performance and economic issues, convincing the customer through field trial reports of the benefits of systems offered, negotiation of purchase orders and deployment. Customers who purchase our systems must commit a significant amount of capital and other resources. Our customers must consider budgetary constraints, comply with internal procedures for approving large expenditures and complete whatever testing is necessary for them to integrate new technologies that will impact their key operations. Customer delays can lengthen the sales cycles and have a material adverse effect on our business.

We depend on the capital spending patterns of wireless network operators, and if capital spending is decreased or delayed, our business may be harmed.

Because we rely on wireless network operators for product purchases, any substantial decrease or delay in capital spending patterns in the wireless communication industry may harm our business. Demand from customers for our products depends to a significant degree upon the amount and timing of capital spending by these customers for constructing, rebuilding or upgrading their systems. The capital spending patterns of wireless network operators depend on a variety of factors, including access to financing, the status of federal, local and foreign government regulation and deregulation, changing standards for wireless technology, overall demand for wireless services, competitive pressures and general economic conditions. In addition, capital spending patterns in the wireless industry can be subject to some degree of seasonality, with lower levels of spending in the first and third calendar quarters, based on annual budget cycles.

Our reliance on a limited number of suppliers and the long lead time of components for our products could impair our ability to manufacture and deliver our systems on a timely basis.

A number of components used in our products are available from a limited number of outside suppliers due to unique designs as well as certain quality and performance requirements. There are components that we source from a single vendor due to the present volume. Key components of our conventional products are manufactured by a sole foreign manufacturer. Our reliance on sole or limited source suppliers involves certain risks and uncertainties, many of which are beyond our control. These include the possibility of a shortage or the discontinuation of certain key components. Any reduced availability of these parts or components when required could impair our ability to manufacture and deliver our systems on a timely basis and result in the delay or cancellation of orders, which could harm our business.

In addition, the purchase of some of our key components involves long lead times and, in the event of unanticipated increases in demand for our solutions, we may be unable to obtain these components in sufficient quantities to meet our customers' requirements. We do not have guaranteed supply arrangements with any of these suppliers, do not maintain an extensive inventory of parts or components and customarily purchase sole or limited source parts and components pursuant to purchase orders. Business disruptions, quality issues, production shortfalls or financial difficulties of a sole or limited source supplier could materially and adversely affect us by increasing product costs, or eliminating or delaying the availability of such parts or components. In such events, our inability to develop alternative sources of supply quickly and on a cost-effective basis could impair our ability to manufacture and deliver our systems on a timely basis and could harm our business.

Our reliance on a limited number of suppliers exposes us to quality control issues.

Our reliance on certain single-source and limited-source components exposes us to quality control issues if these suppliers experience a failure in their production process or otherwise fail to meet our quality requirements. A failure in single-source or limited-source components or products could force us to repair or replace a product utilizing replacement components. If we cannot obtain comparable replacements or effectively return or redesign our products, we could lose customer orders or incur additional costs, which could have a material adverse effect on our gross margins and results of operations.

We expect decreases in average selling prices, requiring us to reduce product costs in order to achieve and maintain profitability.

The average selling price of our products has decreased over the years. We anticipate customer pressure on our product pricing will continue for the foreseeable future. We have plans to further reduce the manufacturing cost of our products, but there is no assurance that our future cost reduction efforts will keep pace with price erosion. We will need to further reduce our manufacturing costs through engineering improvements and economies of scale in production and purchasing in order to achieve adequate gross margins. We may not be able to achieve the required product cost savings at a rate needed to keep pace with competitive pricing pressure. Additionally, we may be forced to discount future orders. If we fail to reach our cost saving objectives or we are required to offer future discounts, our business may be harmed.

Our ability to protect our patents and other proprietary rights is uncertain, exposing us to possible losses of competitive advantage.

Our efforts to protect our proprietary rights may not succeed in preventing infringement by others or ensure that these rights will provide us with a competitive advantage. Pending patent applications may not result in issued patents and the validity of issued patents may be subject to challenge. Third parties may also be able to design around the patented aspects of the products. Additionally, certain of the issued patents and patent applications are owned jointly with third parties. Because any owner or co-owner of a patent can license its rights under jointly-owned patents or applications, inventions made by us jointly with others are not subject to our exclusive control. Any of these possible events could result in losses of competitive advantage.

We depend on specific patents and licenses to technologies, and we will likely need additional technologies in the future that we may not be able to obtain.

We utilize technologies under licenses of patents from others for our products. These patents may be subject to challenge, which may result in significant litigation expense (which may or may not be recoverable against future royalty obligations). Additionally, we continually try to develop new products, and, in the course of doing so, we may be required to utilize intellectual property rights owned by others and may seek licenses to do so. Such licenses may not be obtainable on commercially reasonable terms, or at all. It is also possible that we may inadvertently utilize intellectual property rights held by others, which could result in substantial claims.

Intellectual property infringement claims against us could materially harm results of operations.

Our products incorporate a number of technologies, including high-temperature superconductor technology, technology related to other materials, and electronics technologies. Our patent positions, and that of other companies using high-temperature superconductor technology, is uncertain and there is significant risk that others, including our competitors or potential competitors, have obtained or will obtain patents relating to our products or technologies or products or technologies planned to be introduced by us.

We believe that patents may be or have been issued, or applications may be pending, claiming various compositions of matter used in our products. We may need to secure one or more licenses of these patents. There can be no assurances that such licenses could be obtained on commercially reasonable terms, or at all. We may be required to expend significant resources to develop alternatives that would not infringe such patents or to obtain licenses to the related technology. We may not be able to successfully design around these patents or obtain licenses to them and may have to defend ourselves at substantial cost against allegations of infringement of third party

patents or other rights to intellectual property. In those circumstances, we could face significant liabilities and also be forced to cease the use of key technology.

We currently rely on specific technologies and may not successfully adapt to the rapidly changing wireless telecommunications equipment market.

Wireless telecommunication equipment is characterized by rapidly advancing technology. Our success depends upon our ability to keep pace with advancing wireless technology, including materials, processes and industry standards. For example, we had to redesign our SuperLink product to convert from thallium barium calcium copper oxide to yttrium barium copper oxide in order to reduce the product cost and compete with other technologies. However, even with the lower cost HTS material, SuperLink may not ultimately prove commercially competitive against other current technologies or those that may be discovered in the future.

We will have to continue to develop and integrate advances to our core technologies. We will also need to continue to develop and integrate advances in complementary technologies. We cannot guarantee that our development efforts will not be rendered obsolete by research efforts and technological advances made by others.

Other parties may have the right to utilize technology important to our business.

We utilize certain intellectual property rights under non-exclusive licenses or have granted to others the right to utilize certain intellectual property rights licensed from a third party. Because we may not have the exclusive rights to utilize such intellectual property, other parties may be able to compete with us, which may harm our business.

Our failure to anticipate and respond to developments in the wireless telecommunications market could substantially harm our business.

Our efforts are focused on the wireless telecommunications market. The dedication of our resources to the wireless telecommunications market makes us potentially vulnerable to changes in this market, such as new technologies like WIMAX, future competition, changes in availability of capital resources or regulatory changes that could affect the competitive position and rate of growth of the wireless industry.

We may not be able to compete effectively against alternative technologies.

Our products compete with a number of alternative approaches and technologies that increase the capacity and improve the quality of wireless networks. Some of these alternatives may be more cost effective or offer better performance than our products. Wireless network operators may opt to increase the number of transmission stations, increase tower heights, install filters and amplifiers at the top of towers or use advanced antenna technology in lieu of purchasing our products. We may not succeed in competing against these alternatives.

We depend upon government contracts for a substantial amount of revenue and our business may suffer if significant contracts are terminated, adversely modified, or we are unable to win new contracts.

We derive a substantial portion of our revenue from a few large contracts with the U.S. government. As a result, a reduction in, or discontinuance of, the government's commitment to current or future programs could materially reduce government contract revenue.

Contracts involving the U.S. government may include various risks, including:

- termination by the government;
- reduction or modification in the event of changes in the government's requirements or budgetary constraints;
- increased or unexpected costs causing losses or reduced profits under contracts where prices are fixed or unallowable costs under contracts where the government reimburses for costs and pays an additional premium;
- risks of potential disclosure of confidential information to third parties;

- the failure or inability of the main contractor to perform its contract in circumstances where we are a subcontractor;
- the failure of the government to exercise options for additional work provided for in the contracts; and
- the government's right in certain circumstances to freely use technology developed under these contracts.

The programs in which we participate may extend for several years, but are normally funded on an annual basis. The U.S. government may not continue to fund programs under which we have entered into contracts. Even if funding is continued, we may fail to compete successfully to obtain funding within such programs.

All costs for services under government contracts are subject to audit, and the acceptance of such costs as allowable and allocable is subject to federal regulatory guidelines. We record contract revenues in amounts that we expect to be realized upon final audit settlement. Any disallowance of costs by the government could have an adverse effect on our business, operating results and financial condition. Audits and adjustments may result in decreased revenues and net income for those years. Additionally, because of our participation in government contracts, we are subject to audit from time to time for our compliance with government regulations by various agencies. Government agencies may conduct inquiries or investigations that may cover a broad range of activity. Responding to any such audits, inquiries or investigations may involve significant expense and divert management's attention. In addition, an adverse finding in any such audit, inquiry or investigation could involve penalties that may harm our business.

Because competition for target employees is intense, we may be subject to claims of unfair hiring practices, trade secret misappropriation or other related claims.

Companies in the wireless telecommunications industry whose employees accept positions with competitors frequently claim that competitors have engaged in unfair hiring practices, trade secret misappropriation or other related claims. We may be subject to such claims in the future as we seek to hire qualified personnel, and such claims may result in material litigation. If this should occur, we could incur substantial costs in defending against these claims, regardless of their merits.

If we are unable to forecast our inventory needs accurately, we may be unable to obtain sufficient manufacturing capacity or may incur unnecessary costs and produce excess inventory.

We forecast our inventory needs based on anticipated purchase orders to determine manufacturing requirements. If we overestimate demand, we may have excess inventory, and our suppliers may as well, which could increase our costs. If we underestimate our requirements, our suppliers may have inadequate inventory, which could interrupt manufacturing and result in delays in shipments and recognition of revenues. In addition, lead times for ordering materials and components vary significantly and depend on factors such as the specific supplier, contract terms and demand for any component at a given time. Accordingly, if we inaccurately forecast demand, we may be unable to obtain adequate manufacturing capacity from our suppliers to meet customers' delivery requirements, which would harm our business.

Our success depends on the attraction and retention of senior management and technical personnel with relevant expertise.

As a competitor in a highly technical market, we depend heavily upon the efforts of our existing senior management and technical teams. The loss of the services of one or more members of these teams could slow product development and commercialization objectives. Due to the specialized nature of our products, we also depend upon our ability to attract and retain qualified technical personnel with substantial industry knowledge and expertise. Competition for qualified personnel is intense, and we may not be able to continue to attract and retain qualified personnel necessary for the development of our business.

We have experienced difficulty recruiting senior management due to the high cost of living in the Santa Barbara area. We have a limited pool of qualified executives in Santa Barbara and may attempt to recruit qualified candidates from across the country. Some candidates have cited the high cost of housing in Santa Barbara as a significant negative factor when considering our employment offers. We have mitigated this problem to a limited

extent by allowing some executives to maintain their existing residences in other parts of the country and effectively “commute” to our corporate headquarters in Santa Barbara as needed to perform their duties. Regardless, we expect the cost of housing in our area will continue to present a significant obstacle to recruiting senior executives.

Regulatory changes negatively affecting wireless communications companies could substantially harm our business.

The Federal Communications Commission strictly regulates the operation of wireless base stations in the United States. Other countries also regulate the operation of base stations within their territories. Base stations and equipment marketed for use in base stations must meet specific technical standards. Our ability to sell our high-temperature superconductor filter subsystems will depend upon the rate of deployment of other new wireless digital services, the ability of base station equipment manufacturers and of base station operators to obtain and retain the necessary approvals and licenses, and changes in regulations that may impact the product requirements. Any failure or delay of base station manufacturers or operators in obtaining necessary approvals could harm our business.

We may acquire or make investments in companies or technologies that could cause loss of value to stockholders and disruption of business.

We may explore opportunities to acquire companies or technologies in the future. Other than the acquisition of Conductus, Inc. in 2002, we have not made any such acquisitions or investments to date and, therefore, our ability as an organization to make acquisitions or investments is unproven. An acquisition entails many risks, any of which could adversely affect our business, including:

- failure to integrate operations, services and personnel;
- the price paid may exceed the value eventually realized;
- loss of share value to existing stockholders as a result of issuing equity securities to finance an acquisition;
- potential loss of key employees from either our then current business or any acquired business;
- entering into markets in which we have little or no prior experience;
- diversion of financial resources and management’s attention from other business concerns;
- assumption of unanticipated liabilities related to the acquired assets; and
- the business or technologies acquired or invested in may have limited operating histories and may be subjected to many of the same risks to which we are exposed.

In addition, future acquisitions may result in potentially dilutive issuances of equity securities, or the incurrence of debt, contingent liabilities or amortization expenses or charges related to goodwill or other intangible assets, any of which could harm our business. As a result, if we fail to properly evaluate and execute acquisitions or investments, our business and prospects may be seriously harmed.

If we are unable to implement appropriate controls and procedures to manage our potential growth, we may not be able to successfully offer our products and implement our business plan.

Our ability to successfully offer our products and implement our business plan in a rapidly evolving market requires an effective planning and management process. Growth in future operations would place a significant strain on management systems and resources. We expect that we would need to improve our financial and managerial controls, reporting systems and procedures, and would need to expand, train and manage our work force worldwide. Furthermore, we expect that we would be required to manage multiple relationships with various customers and other third parties.

Compliance with environmental regulations could be especially costly due to the hazardous materials used in the manufacturing process.

We are subject to a number of federal, state and local governmental regulations related to the use, storage, discharge and disposal of toxic, volatile or otherwise hazardous chemicals used in our business. Any failure to comply with present or future regulations could result in fines being imposed, suspension of production or interruption of operations. In addition, these regulations could restrict our ability to expand or could require us to acquire costly equipment or incur other significant expense to comply with environmental regulations or to clean up prior discharges.

The reliability of market data included in our public filings is uncertain.

Since we operate in a rapidly changing market, we have in the past, and may from time to time in the future, include market data from industry publications and our own internal estimates in some of the documents we file with the Securities and Exchange Commission. The reliability of this data cannot be assured. Industry publications generally state that the information contained in these publications has been obtained from sources believed to be reliable, but that its accuracy and completeness is not guaranteed. Although we believe that the market data used in our filings with the Securities and Exchange Commission is and will be reliable, it has not been independently verified. Similarly, internal company estimates, while believed by us to be reliable, have not been verified by any independent sources.

Our international operations expose us to certain risks.

In November 2007, we signed an agreement for a joint venture with BAOLI to manufacture and market our SuperLink[®] interference elimination solution for the China market. In addition to facing many of the risks faced by our domestic business, if that joint venture or any other international operation we may have is to be successful, we (together with any joint venture partner) must recruit the necessary personnel and develop the facilities needed to manufacture and sell the products involved, learn about the local market (which may significantly differ from our domestic market), build brand awareness among potential customers and compete successfully with local organizations with greater market knowledge and potentially greater resources than we have. We must also obtain a number of critical governmental approvals from both the United States and the local country governments on a timely basis, including those related to any transfers of our technology. We must establish sufficient controls on any foreign operations to ensure that those operations are operated in accordance with our interests, that our intellectual property is protected and that our involvement does not inadvertently create potential competitors. There can be no assurance that these conditions will be met. Even if they are met, the process of building our international operations could divert financial resources and management attention from other business concerns. Finally, our international operations will also be subject to the general risks of international operations, such as:

- changes in exchange rates;
- international political and economic conditions;
- changes in government regulation in various countries;
- trade barriers;
- adverse tax consequences; and
- costs associated with expansion into new territories.

Risks Related to Our Common Stock

Our stock price is volatile.

The market price of our common stock has been, and we expect will continue to be, subject to significant volatility. The value of our common stock may decline regardless of our operating performance or prospects. Factors affecting our market price include:

- our perceived prospects;

- variations in our operating results and whether we have achieved key business targets;
- changes in, or our failure to meet, earnings estimates;
- changes in securities analysts' buy/sell recommendations;
- differences between our reported results and those expected by investors and securities analysts;
- announcements of new contracts by us or our competitors;
- market reaction to any acquisitions, joint ventures or strategic investments announced by us or our competitors; and
- general economic, political or stock market conditions.

Recent events have caused stock prices for many companies, including ours, to fluctuate in ways unrelated or disproportionate to their operating performance. The general economic, political and stock market conditions that may affect the market price of our common stock are beyond our control. The market price of our common stock at any particular time may not remain the market price in the future.

We have a significant number of outstanding warrants and options, and future sales of these shares could adversely affect the market price of our common stock.

As of March 10, 2010, we had outstanding warrants and options exercisable for an aggregate of 1,530,000 shares of common stock at a weighted average exercise price of \$10.08 per share. We have registered the issuance of all these shares, and they will be freely tradable by the exercising party upon issuance. The holders may sell these shares in the public markets from time to time, without limitations on the timing, amount or method of sale. As our stock price rises, the holders may exercise their warrants and options and sell a large number of shares. This could cause the market price of our common stock to decline.

Our corporate governance structure may prevent our acquisition by another company at a premium over the public trading price of our shares.

It is possible that the acquisition of a majority of our outstanding voting stock by another company could result in our stockholders receiving a premium over the public trading price for our shares. Provisions of our restated certificate of incorporation and bylaws and of Delaware corporate law could delay or make more difficult an acquisition of our company by merger, tender offer or proxy contest, even if it would create an immediate benefit to our stockholders. For example, our restated certificate of incorporation does not permit stockholders to act by written consent and our bylaws generally require ninety days advance notice of any matters to be brought before the stockholders at an annual or special meeting.

In addition, our board of directors has the authority to issue up to 2,000,000 shares of preferred stock and to determine the terms, rights and preferences of this preferred stock, including voting rights of those shares, without any further vote or action by the stockholders. At March 10, 2010, 1,388,477 shares of preferred stock remained unissued. The rights of the holders of common stock may be subordinate to, and adversely affected by, the rights of holders of preferred stock that may be issued in the future. The issuance of preferred stock could also make it more difficult for a third party to acquire a majority of our outstanding voting stock, even at a premium over our public trading price.

Further, our certificate of incorporation also provides for a classified board of directors with directors divided into three classes serving staggered terms. These provisions may have the effect of delaying or preventing a change in control of us without action by our stockholders and, therefore, could adversely affect the price of our stock or the possibility of sale of shares to an acquiring person.

We do not anticipate declaring any cash dividends on our common stock.

We have never declared or paid cash dividends on our common stock and do not plan to pay any cash dividends in the near future. Our current policy is to retain all funds and earnings for use in the operation and expansion of our

business. In addition, our debt agreements prohibit the payment of cash dividends or other distributions on any of our capital stock except dividends payable in additional shares of capital stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease all of our properties. All of our operations, including our manufacturing facility, are located in an industrial complex in Santa Barbara, California. We occupy approximately 71,000 square feet in this complex under a long-term lease that expires in 2016. Although we currently have excess capacity, we believe this facility can be managed in a flexible and cost effective manner and is adequate to meet current and reasonably anticipated needs for approximately the next two years.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of our business. Excluding ordinary, routine litigation incidental to our business, we are not currently a party to any legal proceedings that we believe would reasonably be expected to have a material adverse effect on our business, financial condition or results of operation or cash flow.

ITEM 4. REMOVED**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market for Common Stock**

Our common stock is traded on the NASDAQ Capital Market under the symbol "SCON." The following table shows the high and low sales prices for our common stock as reported by NASDAQ for each calendar quarter in the last two fiscal years:

	<u>High</u>	<u>Low</u>
2009		
Quarter ended December 31, 2009	\$ 3.35	\$ 2.08
Quarter ended September 26, 2009	\$ 3.99	\$ 2.22
Quarter ended June 27, 2009	\$ 5.45	\$ 0.93
Quarter ended March 28, 2009	\$ 1.45	\$ 0.82
2008		
Quarter ended December 31, 2008	\$ 1.50	\$ 0.68
Quarter ended September 27, 2008	\$ 2.43	\$ 0.73
Quarter ended June 28, 2008	\$ 4.83	\$ 2.18
Quarter ended March 29, 2008	\$ 6.80	\$ 3.22

Holders of Record

We had 164 holders of record of our common stock on March 1, 2010. This number does not include stockholders for whom shares were held in a "nominee" or "street" name. We estimate that there are more than 12,000 beneficial owners of our common stock.

Dividends

We have never paid cash dividends and intend to employ all available funds in the development of our business. We have no plans to pay cash dividends in the near future, and our line of credit does not allow the payment of dividends.

Our ability to declare or pay dividends on shares of our common stock is subject to the requirement that we pay an equivalent dividend on each outstanding share of Series A Preferred Stock (on an as-converted basis).

Sales of Unregistered Securities

We did not conduct any offerings of equity securities during the fourth quarter of 2009 that were not registered under the Securities Act of 1933.

Repurchases of Equity Securities

We did not repurchase any shares of our common stock during the fourth quarter of 2009.

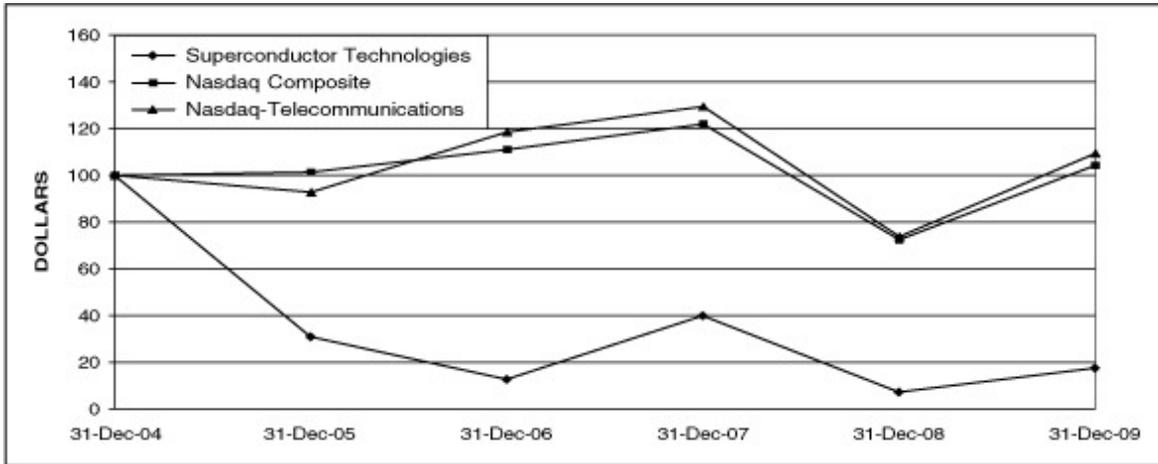
Securities Authorized for Issuance Under Equity Compensation Plans

<u>Plan Category</u>	<u>Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a))</u>
Equity compensation plans approved by security holders	1,144,876	\$ 20.16	213,380
Equity compensation plans not approved by security holders	—	—	—
Total	1,144,876	\$ 20.16	213,380

Stock Performance Graph

The stock performance graph and related information presented below shall not be deemed “soliciting material” or “filed” with the Securities and Exchange Commission or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or to the liabilities of Section 18 of the Exchange Act, and shall not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended (the “Securities Act”), or the Exchange Act, except to the extent that we specifically request that such information be treated as soliciting material or specifically incorporate it by reference into such a filing.

The graph and table below compare the cumulative total stockholders’ return on our common stock since December 31, 2004 with the Nasdaq Composite Index, and the Nasdaq Telecommunications Index over the same period (assuming the investment of \$100 in our common stock and in the two other indices, and reinvestment of all dividends).



	31-Dec-04	31-Dec-05	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09
Superconductor Technologies	\$ 100.00	\$ 30.94	\$ 12.73	\$ 39.93	\$ 7.27	\$ 17.55
Nasdaq Composite	100.00	101.37	111.03	121.92	72.49	104.31
Nasdaq-Telecommunications	100.00	92.79	118.55	129.42	73.79	109.39

ITEM 6. SELECTED FINANCIAL DATA

The information set forth below is not necessarily indicative of results of future operations and should be read in conjunction with our Financial Statements and Notes thereto appearing in Item 15 of Part IV of this Report and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

	Years Ended December 31,				
	2009	2008	2007	2006	2005
(In thousands, except per share data)					
Statement of Operations Data:					
Net revenues:					
Net commercial product revenues	\$ 7,239	\$ 6,768	\$ 12,787	\$ 17,697	\$ 21,080
Government and other contract revenues	3,577	4,525	5,115	3,361	3,107
Sub license royalties	—	—	—	20	22
Total net revenues	10,816	11,293	17,902	21,078	24,209
Costs and expenses:					
Cost of commercial product revenues	9,102	8,911	12,944	15,922	18,989
Cost of government and other contract revenues	2,552	3,649	2,906	2,407	2,806
Other research and development	4,399	3,394	3,172	3,488	4,214
Selling, general and administrative	6,925	8,151	8,123	9,086	11,442
Restructuring expenses and impairment charges	—	141	—	38	1,197
Write off of Goodwill	—	—	—	20,107	—
Total costs and expenses	22,978	24,246	27,145	51,048	38,648
Loss from operations	(12,162)	(12,953)	(9,243)	(29,970)	(14,439)
Other income (expense), net	(817)	252	117	346	226
Net loss	\$ (12,979)	\$ (12,701)	\$ (9,126)	\$ (29,624)	\$ (14,213)
Basic and diluted net loss per common share	\$ (0.65)	\$ (0.77)	\$ (0.73)	\$ (2.37)	\$ (1.24)
Weighted average number of shares Outstanding	19,843	16,403	12,488	12,483	11,419

	Years Ended December 31,				
	2009	2008	2007	2006	2005
Balance Sheet Data:					
Cash and cash equivalents	\$ 10,365	\$ 7,569	\$ 3,939	\$ 5,487	\$ 13,018
Working capital	12,557	12,253	3,293	10,158	17,218
Total assets	18,126	19,358	16,625	21,904	52,045
Long-term debt, including current portion	576	521	563	618	33
Total stockholders’ equity	\$ 16,241	\$ 17,552	\$ 9,190	\$ 17,951	\$ 47,257

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes many forward-looking statements. For cautions about relying on such forward looking statements, please refer to the section entitled "Forward Looking Statements" at the beginning of this Report immediately prior to Item 1.

General

We are a leading company in HTS materials and related technologies. HTS materials have the unique ability to conduct various signals or energy (e.g., electrical current or RF signals) with little or no resistance when cooled to "critical" temperatures. Electric currents that flow through conventional conductors encounter resistance that requires power to overcome and generates heat. HTS materials can substantially improve the performance characteristics of electrical systems, reducing power loss, lowering heat generation and decreasing electrical noise. Circuits designed to remove interference inherent in some RF signals can also be made from HTS materials. Commercial use of HTS materials requires a number of cutting edge technologies, including development of HTS materials, specialized manufacturing expertise to create uniform thin layers of these materials, expert designs of circuits optimized for HTS materials, and technologies to maintain an extremely low temperature environment for HTS applications (although the critical temperatures for HTS are "high" compared with traditional superconductors, they are still extremely cold by other standards).

Our Proprietary Technology

We are focused on research and development to maintain our technological edge. As of December 31, 2009, we had 34 employees in our research and development division; 9 of our employees have Ph.D.s, and 14 others hold advanced degrees in physics, materials science, electrical engineering and other fields. Our development efforts over the last 22 years have yielded an extensive patent portfolio as well as critical trade secrets, unpatented technology and proprietary knowledge. We enter into confidentiality and non-disclosure agreements with our employees, suppliers and consultants to protect our proprietary information. As of December 31, 2009, we held 59 U.S. patents in the following categories:

- 8 patents for technologies directed toward producing thin-film materials and structures, which expire between 2010 and 2025. We have developed a proprietary state-of-the-art manufacturing process for producing HTS thin-films of the highest quality.
- 32 patents for cryogenic and non-microwave circuit designs, which expire between 2010 and 2028. The expertise of our highly qualified team has allowed us to design and fabricate extremely small, high-performance circuits including RF signal filters.
- 17 patents covering cryogenics, packaging and systems, which expire between 2013 and 2025. Our proprietary and patented cryogenic packaging innovation provides us with a significant competitive advantage in maintaining our HTS materials at their critical temperatures.
- 2 patents covering other superconducting technologies, which expire between 2013 and 2015.

As of December 31, 2009, we also had 19 issued foreign patents, 21 U.S. patent applications pending and 60 foreign applications patents pending.

We are currently focusing our efforts on applications in areas such as:

- *Wireless Networks.* Our current commercial products help maximize the performance of wireless telecommunications networks by improving the quality of uplink signals from mobile wireless devices. Our products increase capacity utilization, lower dropped and blocked calls, extend coverage, and enable higher wireless data throughput — all while reducing capital and operating costs. We are leveraging our unique filtering technology to pursue wireless business on multiple fronts: capturing wireless business with tier one U.S. wireless carriers for the LTE network build out, and developing our advanced reconfigurable filtering technology, which has the potential to drastically reduce the size and cost of mobile devices.

- *Superconducting Power Applications.* We are adapting our unique HTS materials deposition techniques to deliver energy efficient, cost-effective and high performance 2G HTS wire technology for next generation power applications. A variety of large, high potential, initial target markets have been identified for our 2G HTS wire including: energy (wind turbines, smart grid), industrial (motors, generators) and healthcare (MRI) applications. To accelerate development and manufacturing processes for our 2G HTS wire, we are partnering with HTS industry leaders, United States National Labs and the DOE. In August 2009, we renewed our two year Cooperative Research and Development Agreement with LANL. These technological interchanges will help us meet the technical challenges and performance metrics for both high performance and cost effective 2G HTS wire.
- *Government Products.* As the worldwide leader in developing tunable HTS filter systems for military applications, we continue to be a crucial partner in the U.S. government's future success. Our high-performance HTS filter systems have been proven to increase the detection range, reduce interference, and in some cases, detect signals that were previously undetectable with conventional technology. Currently, we actively participate in the development of technologies for application in military communications, signals intelligence, and electronic warfare.

Our development efforts can take a significant number of years to commercialize, and we must overcome significant technical barriers and deal with other significant risks, some of which are set out in our public filings, including in particular the "Risk Factors" included in Item 1A of this Report.

Our Business Model

To be successful, we must use our expertise and our technology to generate revenues in various ways, including government contracts, commercial operations, joint ventures and licenses:

Government Contracts

We generate significant revenues from government contracts. For 2009, 2008 and 2007, government related contracts accounted for 32%, 40% and 29%, respectively, of our net revenues. We typically own the intellectual property developed under these contracts, and grant the Federal government a royalty-free, non-exclusive and nontransferable license to use it. As a result, our government contracts can not only generate a profit for us, but we can also make additional money through exploiting of the resulting technology in our commercial operations as well as government products, or through licenses or joint ventures. Contracts with the U.S. government contain provisions, and are subject to laws and regulations, that give the government rights and remedies not typically found in commercial contracts, including rights that allow the government to:

- terminate existing contracts for convenience, which affords the U.S. government the right to terminate the contract in whole or in part any time it wants for any reason or no reason, as well as for default;
- reduce or modify contracts or subcontracts, if its requirements or budgetary constraints change;
- cancel or reduce multi-year contracts and related orders, if funds for contract performance for any subsequent year become unavailable;
- adjust reimbursable contract costs and fees on the basis of audits completed by its agencies through exercise of its oversight rights; and
- control or prohibit the export of products.

Compensation in the event of a termination, if any, is limited to compensation for work completed at the time of termination. In the event of termination for convenience, we may receive a certain allowance for profit on the work performed.

Commercial Applications

We have chosen to manufacture and sell certain commercial products on our own. To date, our commercial efforts have been focused on the design, manufacture, and sale of high performance infrastructure products for

wireless voice and data applications. We have three current product lines, all of which relate to wireless base stations:

- SuperLink, a highly compact and reliable receiver front-end HTS wireless filter system to eliminate out-of-band interference for wireless base stations, combining filters with a proprietary cryogenic cooler and a cooled low-noise amplifier.
- AmpLink, a ground-mounted unit for wireless base stations that includes a high-performance amplifier and up to six dual duplexers.
- SuperPlex, a high-performance multiplexer that provides extremely low insertion loss and excellent cross-band isolation designed to eliminate the need for additional base station antennas and reduce infrastructure costs.

We sell most of our current commercial products to a small number of wireless carriers in the United States, including Alltel, AT&T, Sprint Nextel, T-Mobile and Verizon Wireless. Verizon Wireless and AT&T each accounted for more than 10% of our commercial revenues in 2009, 2008 and 2007. We are seeking to expand our customer base by selling directly to other wireless network operators and manufacturers of base station equipment, including internationally. Demand for wireless communications equipment fluctuates dramatically and unpredictably. The wireless communications infrastructure equipment market is extremely competitive and is characterized by rapid technological change, new product development, product obsolescence, evolving industry standards and price erosion over the life of a product. We face constant pressures to reduce prices. Consequently, we expect the average selling prices of our products will continue decreasing over time. We expect these trends to continue and may cause significant fluctuations in our quarterly and annual revenues. Our commercial operations are subject to a number of significant risks, some of which are set out in our public filings, including in particular the “Risk Factors” included in Item 1A of this Report.

Joint Ventures

From time to time we may pursue joint ventures with other entities to commercialize our technology. In particular, we have agreed to license certain technology for our SuperLink interference elimination solution for the China market to a joint venture where we own 45 percent of the equity. In 2008, we received orders from the joint venture for our new TD-SCDMA solution to perform lab and field trial activities in China. The lab and field trial was successfully completed in 2008 and in 2009 we successfully completed field trials in the existing China 2G market using our SuperLink solution. The commencement of manufacturing and the transfer of our processes to the joint venture will be driven by product demand from the China market. The joint venture’s activities remain subject to successful product marketing efforts in addition to a number of other conditions, including certain critical approvals from the Chinese and United States governments. In particular, we have been in discussions with the United States government concerning the national security implications of our joint venture and investment from BAOLI. There continues to be no assurance that these conditions will be met, or that all required approvals (if obtained) will be obtained on a timely basis. Even if these conditions are met and the approvals received, the results from our joint venture will be subject to a number of significant risks associated with international operations and new ventures, some of which are set forth in our public filings, including in particular the “Risk Factors” included in Item 1A of this Report.

Licenses

From time to time we grant licenses for our technology to other companies. Specifically, we have granted licenses to, among others, (1) Bruker for Nuclear Magnetic Resonance application, (2) General Dynamics for government applications and (3) Star Cryoelectronics for Superconducting Quantum Interference Device applications.

Backlog

Our commercial backlog consists of accepted product purchase orders with scheduled delivery dates during the next twelve months. We had commercial backlog of \$795,000 at December 31, 2009, compared to \$272,000 at December 31, 2008.

Results of Operations

2009 Compared to 2008

Net revenues consist primarily of commercial product revenues and government contract revenues. Net revenues decreased by \$0.5 million, or 4%, to \$10.8 million in 2009 from \$11.3 million in 2008.

Net commercial product revenues increased by \$0.4 million, or 7%, to \$7.2 million in 2009 from \$6.8 million in 2008. The increase is the result of higher sales volume for our SuperLink products. Average sales prices for our products were essentially unchanged in 2009 from 2008. Our two largest customers accounted for 92% of our net commercial revenues in 2009 and 2008. These customers generally purchase products through non-binding commitments with minimal lead-times. Consequently, our commercial product revenues can fluctuate dramatically from quarter to quarter based on changes in our customers' capital spending patterns.

Government contract revenues decreased by \$0.9 million, or 21%, to \$3.6 million in 2009 from \$4.5 million in 2008. This decrease is attributable to the completion of the first phase of a major contract and a funding gap before the second phase of that contract was funded in our second quarter and increased efforts on our research and development activities.

Cost of commercial product revenues includes all direct costs, manufacturing overhead and provision for excess and obsolete inventories. The cost of commercial product revenues totaled \$9.1 million for 2009 compared to \$8.9 million for 2008, an increase of \$0.2 million, or 2%. The higher costs resulted principally from higher production as a result of higher sales. Our expense provision for obsolete inventories totaled \$282,000 in 2009 compared to \$17,000 in 2008.

Our cost of sales includes both variable and fixed cost components. The variable component consists primarily of materials, assembly and test labor, overhead, which includes equipment and facility depreciation, transportation costs and warranty costs. The fixed component includes test equipment and facility depreciation, purchasing and procurement expenses and quality assurance costs. Given the fixed nature of such costs, the absorption of our production overhead costs into inventory decreases, and the amount of production overhead variances expensed to cost of sales increases, as production volumes decline since we have fewer units to absorb our overhead costs against. Conversely, the absorption of our production overhead costs into inventory increases, and the amount of production overhead variances expensed to cost of sales decreases, as production volumes increase since we have more units to absorb our overhead costs against. As a result, our gross profit margins generally decrease as revenue and production volumes decline due to lower sales volume and higher amounts of production overhead variances expensed to cost of sales; and our gross profit margins generally increase as our revenue and production volumes increase due to higher sales volume and lower amounts of production overhead variances expensed to cost of sales. Our inventory is valued at the lower of its actual cost or the current estimated market value of the inventory. We review inventory quantities on hand and on order and record, on a quarterly basis, a provision for excess and obsolete inventory and/or vendor cancellation charges related to purchase commitments. If the results of the review determine that a write-down is necessary, we recognize a loss in the period in which the loss is identified, whether or not the inventory is retained.

The following is an analysis of our commercial product gross profit margins for 2009 and 2008:

	Years Ended December 31,			
	2009		2008	
	Dollars in thousands			
Net commercial product sales	\$ 7,239	100.0%	\$ 6,768	100.0%
Cost of commercial product sales	9,102	125.7%	8,911	131.7%
Gross loss	\$ (1,863)	25.7%	\$ (2,143)	(31.7)%

We had a negative gross margin of \$1.9 million in 2009 from the sale of our commercial products compared to a negative gross margin of \$2.1 million in 2008. The negative gross margin in 2009 is primarily because the reduced level of commercial sales was insufficient to cover our fixed manufacturing overhead costs. Our gross margins were also adversely impacted by a \$282,000 charge for excess and obsolete inventory in 2009 and a similar charge of \$17,000 in 2008. Gross margins were favorably impacted by \$261,000 in 2009 by the sale of previously written-off inventory. There was no similar benefit in 2008. We regularly review inventory quantities on hand and provide an allowance for excess and obsolete inventory based on numerous factors, including sales backlog, historical inventory usage, forecasted product demand and production requirements for the next twelve months.

Cost of contract research and development totaled \$2.6 million in 2009 compared to \$3.6 million in 2008, a decrease of \$1.0 million, or 28%. Because these contracts are generally priced on a "cost plus" basis, declines in revenue generally result in declines in associated costs. As a percentage of government revenue, contract research and development expenses decreased from 81% in 2008 to 71% in 2009 because of different cost recognition criteria on one of our 2009 cost-plus contracts.

Research and development expenses relate to development of new wireless commercial products and other products related to our expertise. We also incur design expenses associated with reducing the cost and improving the manufacturability of our existing products. These expenses totaled \$4.4 million in 2009 compared to \$3.4 million in 2008, an increase of \$1.0 million, or 30%. In 2009, we increased our new commercial products development effort by \$500,000 and in 2008 we capitalized a \$521,000 development related to a product for the China market. We have relatively fixed engineering resources, and our research and development expenses vary inversely with the amount of those resources allocated to our government contract activities.

Selling, general and administrative expenses totaled \$6.9 million in 2009 compared to \$8.2 million in 2008, a decrease of \$1.3 million, or 16%. The lower expenses in 2009 resulted primarily from a reduction in employees in the fourth quarter of 2008, as well as lower expenses for insurance and consulting.

Other expense included a loss from our joint venture with BAOLI in China of \$638,000. The loss included a \$521,000 expense for impairment and a \$117,000 expense for our 45 percent equity ownership of the joint venture's 2009 operating loss. The adjustment of the fair value expense represents the treatment, as a derivative, of 608,237 warrants that are exercisable for common stock. We used the Black-Scholes valuation model to determine their fair value. There were no such charges in 2008.

We incurred no severance charges in 2009. In the fourth quarter of 2008 we reduced our work force and incurred a \$141,000 severance charge.

Interest income decreased to \$24,000 in 2009, compared to \$284,000 in 2008, primarily because of dramatically lower interest rates being paid on our money-market account funds.

Interest expense in 2009 and 2008 amounted to \$32,000.

Our loss totaled \$13.0 million in 2009, compared to \$12.7 million in 2008.

The net loss available to common stockholders totaled \$0.65 per common share in 2009, compared to \$0.77 per common share in 2008.

2008 Compared to 2007

Net revenues decreased by \$6.6 million, or 37%, to \$11.3 million in 2008 from \$17.9 million in 2007.

Net commercial product revenues decreased by \$6.0 million, or 47%, to \$6.8 million in 2008 from \$12.8 million in 2007. The decrease is primarily the result of lower sales volume for our products. Average sales prices for our products were essentially unchanged in 2008 compared to 2007. Our two largest customers accounted for 92% of our net commercial revenues in 2008, compared to 75% in 2007. These customers generally purchase products through non-binding commitments with minimal lead-times. Consequently, our commercial product revenues can fluctuate dramatically from quarter to quarter based on changes in our customers' capital spending patterns.

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Government contract revenues decreased by \$590,000, or 12%, to \$4.5 million in 2008 from \$5.1 million in 2007. This decrease is primarily attributable to the completion of the first phase of a major contract and a funding gap before the second phase of that contract was funded.

The cost of commercial product revenues totaled \$8.9 million for 2008 compared to \$12.9 million for 2007, a decrease of \$4.0 million, or 31%. The lower costs resulted principally from lower production as a result of lower sales. Our expense provision for obsolete inventories totaled \$17,000 in 2008 compared to \$160,000 in 2007.

The following is an analysis of our commercial product gross profit margins for 2007 and 2008:

	Years Ended December 31,			
	2008		2007	
	Dollars in thousands			
Net commercial product sales	\$ 6,768	100.0%	\$ 12,787	100.0%
Cost of commercial product sales	8,911	131.7%	12,944	101.2%
Gross profit	\$ (2,143)	(31.7)%	\$ (157)	(1.2)%

We had a negative gross margin of \$2.1 million in 2008 from the sale of our commercial products compared to a negative gross margin of \$157,000 in 2007. The negative gross margin in 2008 is primarily because the reduced level of commercial sales was insufficient to cover our fixed manufacturing overhead costs. Our gross margins were also adversely impacted by a \$17,000 charge for excess and obsolete inventory in 2008 and a similar charge of \$160,000 in 2007. Gross margins were favorably impacted by \$195,000 in 2007 by the sale of previously written-off inventory. There was no similar benefit in 2008.

Cost of contract research and development totaled \$3.6 million in 2008 compared to \$2.9 million in 2007, an increase of \$743,000, or 26%. As a percentage of government revenue, contract research and development expenses increased from 57% in 2007 to 81% in 2008 because of different cost recognition criteria on one of our 2008 cost-plus contracts.

Research and development expenses relate to development of new wireless commercial products and other products related to our expertise. We also incur design expenses associated with reducing the cost and improving the manufacturability of our existing products. These expenses totaled \$3.4 million in 2008 compared to \$3.2 million in 2007, an increase of \$222,000, or 7%. The increase is due to increased efforts associated with new commercial products development.

Selling, general and administrative expenses totaled \$8.2 million in 2008 compared to \$8.1 million in 2007, an increase of \$28,000, or less than 1%. Expenses were lower in 2007 primarily from the reversal of a \$610,000 reserve in the first quarter of 2007. In 2008 we had lower insurance premiums and lower selling expenses that were slightly offset by higher legal expenses associated with our China joint venture.

In the fourth quarter of 2008 we reduced our work force and incurred a \$141,000 severance charge. There was no similar charge in 2007.

Interest income increased to \$284,000 in 2008, compared to \$156,000 in 2007, primarily because of higher cash balances in 2008.

Interest expense in 2008 amounted to \$32,000, compared to \$39,000 in 2007, as a result of lower borrowing levels.

Our loss totaled \$12.7 million in 2008, compared to \$9.1 million in 2007.

The net loss available to common stockholders totaled \$0.77 per common share in 2008, compared to \$0.73 per common share in 2007.

Liquidity and Capital Resources

Cash Flow Analysis

As of December 31, 2009, we had working capital of \$12.6 million, including \$10.4 million in cash and cash equivalents, compared to working capital of \$12.3 million at December 31, 2008, which included \$7.6 million in cash and cash equivalents. We currently invest our excess cash in short-term, investment-grade, money-market instruments with maturities of three months or less. Our investments have no exposure to the auction rate securities market.

Cash and cash equivalents increased by \$2.8 million from \$7.6 million at December 31, 2008 to \$10.4 million at December 31, 2009. In 2009, cash was used principally in operations and to a lesser extent for the purchase of property and equipment. These uses were offset by gross cash proceeds of \$10.5 million provided by the sales of common stock.

Cash used in operations totaled \$7.4 million in 2009. We used \$9.2 million to fund the cash portion of our net loss. We also used cash to fund a \$600,000 increase in accounts payable payments, patents and licenses payments, higher accounts receivables and prepaid and other current asset payments. These uses were offset by cash generated from the sale of inventory and lower other assets totaling \$2.4 million.

Net cash used in investing activities totaled \$226,000 in 2009 from the purchase of fixed assets.

Net cash provided by financing activities in 2009 totaled \$10.5 million, net of \$800,000 in expenses, from the sale of 3,752,005 shares of common stock at \$3.00 per share in June 2009.

Financing Activities

We have historically financed our operations through a combination of cash on hand, equipment lease financings, available borrowings under bank lines of credit and both private and public equity offerings. We have effective registration statements on file with the Securities and Exchange Commission covering the public resale by investors of common stock issued in our private placements, as well as common stock acquired upon exercise of warrants.

As described above, financing activities in 2009 totaled \$10.5 million, net of \$800,000 in expenses, from the sale of 3,752,005 shares of common stock at \$3.00 per share in June 2009.

We have an existing line of credit from a bank. The line of credit expires in July 2010. The loan agreement is structured as a sale of our accounts receivable and provides for the sale of up to \$3.0 million of eligible accounts receivable, with advances to us totaling 80% of the receivables sold. Advances bear interest at the bank's prime rate (4.0% at December 31, 2009) plus 2.50% subject to a minimum monthly charge. Advances are collateralized by a lien on all of our assets. Under the terms of the agreement, we continue to service the sold receivables and are subject to recourse provisions. There was no amount outstanding under this borrowing facility at December 31, 2009.

Contractual Obligations and Commercial Commitments

We incur various contractual obligations and commercial commitments in our normal course of business. They consist of the following:

Operating Lease Obligations. Our operating lease obligations consist of a facility lease in Santa Barbara, California and several smaller equipment leases.

Patents and Licenses. We have entered into various licensing agreements requiring royalty payments ranging from 0.13% to 2.5% of specified product sales. Some of these agreements contain provisions for the payment of guaranteed or minimum royalty amounts. Typically, the licensor can terminate our license if we fail to pay minimum annual royalties.

Purchase Commitments. In the normal course of business, we incur purchase obligations with vendors and suppliers for the purchase of inventory, as well as other goods and services. These obligations are generally

evidenced by purchase orders that contain the terms and conditions associated with the purchase arrangements. We are committed to accept delivery of such material pursuant to the purchase orders subject to various contract provisions that allow us to delay receipt of such orders or cancel orders beyond certain agreed upon lead times. Cancellations may result in cancellation costs payable by us.

Quantitative Summary of Contractual Obligations and Commercial Commitments

At December 31, 2009, we had the following contractual obligations and commercial commitments:

Contractual Obligations	Payments Due by Period				
	Total	2010	2011 and 2012	2013 and 2014	2015 and beyond
Operating leases	\$ 9,741,000	\$ 1,307,000	\$ 2,707,000	\$ 2,843,000	\$ 2,884,000
Minimum license commitment	1,810,000	175,000	350,000	355,000	930,000
Fixed asset and inventory purchase commitments	328,000	328,000	—	—	—
Total contractual cash obligations	\$ 11,879,000	\$ 1,810,000	\$ 3,057,000	\$ 3,198,000	\$ 3,814,000

Capital Expenditures

We plan to invest approximately \$2.1 million in fixed assets during 2010.

Future Liquidity

In 2009, we incurred a net loss of \$13.0 million and had negative cash flows from operations of \$7.4 million. In 2008, we incurred a net loss of \$12.7 million and had negative cash flows from operations of \$12.1 million. Our independent registered public accounting firm has included in their audit reports for 2009 through 2007 an explanatory paragraph expressing doubt about our ability to continue as a going concern.

At December 31, 2009 we had \$10.4 million in cash and cash equivalents. Our cash resources, together with our line of credit, may not be sufficient to fund our business for at least the next twelve months. We believe the key factors to our future liquidity will be our ability to successfully use our expertise and our technology to generate revenues in various ways, including commercial operations, government contracts, joint ventures and licenses. Because of the uncertainty of these factors, we may need to raise funds to meet our working capital needs.

We cannot assure you that additional financing will be available on acceptable terms or at all. If we issue additional equity securities to raise funds, the ownership percentage of our existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise any needed funds, we might be forced to make further substantial reductions in our operating expenses, which could adversely affect our ability to implement our current business plan and ultimately our viability as a company.

Net Operating Loss Carryforward

As of December 31, 2009, we had net operating loss carryforwards for federal and state income tax purposes of approximately \$298.8 million and \$169.9 million, respectively, which expire in the years 2010 through 2029. Of these amounts, \$80.9 million and \$23.5 million, respectively, resulted from the acquisition of Conductus. Included in the net operating loss carryforwards are deductions related to stock options of approximately \$24.1 million and \$13.1 million for federal and California income tax purposes, respectively. To the extent net operating loss carryforwards are recognized for accounting purposes, the resulting benefits related to the stock options will be credited to stockholders' equity. In addition, we had research and development and other tax credits for federal and state income tax purposes of approximately \$3.1 million and \$1.4 million, respectively, which expire in the years 2010 through 2029. Of these amounts, \$549,000 and \$581,000, respectively, resulted from the acquisition of Conductus.

Due to the uncertainty surrounding their realization, we have recorded a full valuation allowance against our net deferred tax assets. Accordingly, no deferred tax asset has been recorded in the accompanying balance sheet.

Section 382 of the Internal Revenue Code imposes an annual limitation on the utilization of net operating loss carryforwards and other tax attributes based on a statutory rate of return (usually the “applicable federal funds rate”, as defined in the Internal Revenue Code) and the value of the corporation at the time of a “change of ownership” as defined by Section 382. We had changes in ownership in August 1999, December 2002 and June 2009. In addition, we acquired the right to Conductus’ net operating losses, which are also subject to the limitations imposed by Section 382. Conductus underwent four ownership changes, which occurred in February 1999, February 2001, December 2002 and June 2009. Therefore, the ability to utilize Conductus’ and our net operating loss carryforwards will be subject annual limitations upon utilization in future periods. We are currently studying the impact of these Section 382 limitations on the future realizability of our various tax attributes.

Recent Accounting Pronouncements

Recent accounting pronouncements are detailed in Note 2 to our Consolidated Financial Statements included in this Report.

Market Risk

We are exposed to various market risks, including changes in interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices. We do not enter into derivatives or other financial instruments for trading or speculation purposes. Our money market investments have no exposure to the auction rate securities market.

At December 31, 2009, we had approximately \$9.7 million invested in a money market account yielding approximately 0.1%. Assuming no yield on this money market account and no liquidation of principal for the year, our total interest income would decrease by approximately \$10,000 per annum. As we had no amounts outstanding on our bank loan during 2009, changes in its interest rate would not have affected us.

Inflation

We do not foresee any material impact on our operations from inflation.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We continually evaluate our estimates, including those related to bad debts, inventories, recovery of long-lived assets, income taxes, warranty obligations, contract revenue and contingencies. We base our estimates on historical experience and on various other assumptions that we believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Any future changes to these estimates and assumptions could cause a material change to our reported amounts of revenues, expenses, assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of the financial statements. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Our inventory is valued at the lower of its actual cost or the current estimated market value of the inventory. We review inventory quantities on hand and on order and record, on a quarterly basis, a provision for excess and obsolete inventory and/or vendor cancellation charges related to purchase commitments. If the results of the review determine that a write-down is necessary, we recognize a loss in the period in which the loss is identified, whether or not the inventory is retained. Our inventory reserves establish a new cost basis for inventory and are not reversed until we sell or dispose of the related inventory. Such provisions are established based on historical usage, adjusted for known changes in demands for such products, or the estimated forecast of product demand and production requirements. Our business is characterized by rapid technological change, frequent new product development and rapid product obsolescence that could result in an increase in the amount of obsolete inventory quantities on hand. Demand for our products can fluctuate significantly. Our estimates of future product demand may prove to be inaccurate, and we may understate or overstate the provision required for excess and obsolete inventory.

Our net sales consist of revenue from sales of products, net of trade discounts and allowances. We recognize revenue when evidence of an arrangement exists, contractual obligations have been satisfied, title and risk of loss have been transferred to the customer and collection of the resulting receivable is reasonably assured. At the time revenue is recognized, we provide for the estimated cost of product warranties if allowed for under contractual arrangements and return products. Our warranty obligation is affected by product failure rates and service delivery costs incurred in correcting a product failure. Should such failure rates or costs differ from these estimates, accrued warranty costs would be adjusted.

We indemnify, without limit or term, our customers against all claims, suits, demands, damages, liabilities, expenses, judgments, settlements and penalties arising from actual or alleged infringement or misappropriation of any intellectual property relating to our products or other claims arising from our products. We cannot reasonably develop an estimate of the maximum potential amount of payments that might be made under our guarantees because of the uncertainty as to whether a claim might arise and how much it might total.

Contract revenues are principally generated under research and development contracts. Contract revenues are recognized utilizing the percentage-of-completion method measured by the relationship of costs incurred to total estimated contract costs. If the current contract estimate were to indicate a loss, utilizing the funded amount of the contract, a provision would be made for the total anticipated loss. Contract revenues are derived primarily from research contracts with agencies of the United States Government. Credit risk related to accounts receivable arising from such contracts is considered minimal. These contracts include cost-plus, fixed price and cost sharing arrangements and are generally short-term in nature.

All payments to us for work performed on contracts with agencies of the U.S. Government are subject to adjustment upon audit by the Defense Contract Audit Agency. Based on historical experience and review of current projects in process, we believe that the audits will not have a significant effect on our financial position, results of operations or cash flows. The Defense Contract Audit Agency has audited us through 2003.

We periodically evaluate the realizability of long-lived assets as events or circumstances indicate a possible inability to recover the carrying amount. Long-lived assets that will no longer be used in our business are written off in the period identified since they will no longer generate any positive cash flows for us. Such evaluation is based on various analyses, including cash flow and profitability projections. The analyses necessarily involve significant management judgment. In the event the projected undiscounted cash flows are less than net book value of the assets, the carrying value of the assets will be written down to their estimated fair value. Our future cash flows may vary from estimates.

Stock-based employee compensation cost is recognized using the fair-value based method for all awards granted on or after the beginning of 2006. We issue stock option awards and restricted share awards to employees and to non-employee directors under our stock-based incentive plans. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. Compensation cost related to restricted share awards is recorded based on the market price of our common stock on the grant date. We recognize compensation expense over the expected vesting period on a straight-line basis from the grant date.

Our valuation allowance against the deferred tax assets is based on our assessments of historical losses and projected operating results in future periods. If and when we generate future taxable income in the U.S. against

which these tax assets may be applied, some portion or all of the valuation allowance would be reversed and an increase in net income would consequently be reported in future years.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Market Risk.”

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

All information required by this item is listed in the Index to Financial Statements in Part IV, Item 15(a)1 of this Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A(T). CONTROLS AND PROCEDURES

Disclosure Controls and Procedures; Changes in Internal Control Over Financial Reporting

We have established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). As of the end of the period covered by this report we carried out an evaluation under the supervision and with the participation of our management, including the our Chief Executive Officer and Controller (“Principal Financial Officer”), of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities and Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and Controller concluded that our disclosure controls and procedures are effective.

There were no changes in our internal controls over financial reporting during the fourth quarter of the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We do not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Management’s Report on Internal Control Over Financial Reporting

The report below shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section, and shall not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference into such a filing.

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Our management assessed the effectiveness of our internal controls over financial reporting as of December 31, 2009. In making its assessment of the effectiveness of our internal controls over financial reporting, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control-Integrated Framework. Based on these criteria, our management has concluded that, as of December 31, 2009, our internal control over financial reporting is effective. This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our independent registered public accounting firm pursuant

to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to our Proxy Statement for the 2010 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our year ended December 31, 2009.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our Proxy Statement for the 2010 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our year ended December 31, 2009.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to our Proxy Statement for the 2010 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our year ended December 31, 2009.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to our Proxy Statement for the 2010 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our year ended December 31, 2009.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND DISCLOSURES

The information required by this item is incorporated by reference to our Proxy Statement for the 2010 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our year ended December 31, 2009.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Report:

1. Index to Financial Statements. Our financial statements and the Report of Stonefield Josephson, Inc., Independent Registered Public Accounting Firm are included in Part IV of this Report on the pages indicated:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2009 and 2008	F-2
Consolidated Statement of Operations for the years ended December 31, 2009, 2008 and 2007	F-3
Consolidated Statement of Stockholders' Equity for the years ended December 31, 2009, 2008 and 2007	F-4
Consolidated Statement of Cash Flows for the years ended December 31, 2009, 2008 and 2007	F-5
Notes to Consolidated Financial Statements	F-6

2. Financial Statement Schedule Covered by the Foregoing Report of Independent Registered Public Accounting Firm.

[Schedule II — Valuation and Qualifying Accounts](#) F-23

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.

3. Exhibits

<u>Number</u>	<u>Description of Document</u>
3.1	Restated Certificate of Incorporation of Registrant as amended through March 1, 2006.(25)
3.2	Amended and Restated Bylaws of Registrant.(25)
4.1	Form of Common Stock Certificate.(24)
4.2	Certificate of Designations of Registrant of Series A Convertible Preferred Stock of Registrant filed November 13, 2007.(23)
4.3	Certificate of Designations, Preferences and Rights of Series E Convertible Preferred Stock of Registrant.(3)
4.4	Warrant to Purchase Stock issued by Registrant to Silicon Valley Bank and Registration Rights Agreement.(10)
4.5	Form of Warrant Agreement dated August, 2005.(17)
10.1	1992 Director Option Plan (as amended through January 1997).(1)***
10.2	Form of 1992 Director Stock Option Agreement.(1)***
10.3	Amended and Restated 1998 Non-Statutory Stock Option Plan, including Form of Stock Option Agreement.(4)***
10.4	1999 Stock Plan.(2)***
10.5	Form of 1999 Stock Plan Stock Option Agreement.(2)***
10.6	Form of Change in Control Agreement dated March 28, 2003.(7)***
10.7	Form of Amendment No. 1 to Change in Control Agreement dated as of May 24, 2005.(18)***
10.8	Form of Amendment No. 2 to Change in Control Agreement dated as of December 31, 2006.(20)***
10.9	Accounts Receivable Purchase Agreement by and between Registrant and Silicon Valley Bank, dated March 28, 2003, effective date June 23, 2003.(7)

Number	Description of Document
10.10	Accounts Receivable Purchase Modification Agreement by and between Registrant and Silicon Valley Bank dated March 17, 2004.(9)
10.11	Amendment to Purchase Agreement by and between Registrant and Silicon Valley Bank dated as of April 28, 2004.(11)
10.12	Accounts Receivable Purchase Modification Agreement by and between Registrant and Silicon Valley Bank dated March 16, 2005.(15)
10.13	Third Amendment to Loan and Security Agreement by and between Registrant and Silicon Valley Bank dated June 16, 2006.(25)
10.14	Fourth Amendment to Loan and Security Agreement by and between Registrant and Silicon Valley Bank dated June 18, 2007.(25)
10.15	Sixth Amendment to Loan and Security Agreement by and between Registrant and Silicon Valley Bank dated July 31, 2008.(24)
10.16	Seventh Amendment to Loan and Security Agreement by and between Registrant and Silicon Valley Bank dated July 31, 2009.(25)
10.17	Patent License Agreement by and between Registrant and Lucent Technologies GRL LLC.(8)**
10.18	License Agreement between Registrant and Sunpower dated May 2, 2005.(12)**
10.19	Employment Agreement between Registrant and Jeffrey Quiram dated as of February 14, 2005.(13)***
10.20	Stock Option Grant and 2003 Equity Incentive Plan Option Agreement between Registrant and Jeffrey Quiram dated February 14, 2005. (13)***
10.21	Amendment to Employment Agreement between Registrant and Jeffrey Quiram dated as of December 31, 2006.(20)***
10.22	2003 Equity Incentive Plan As Amended May 25, 2005. (16)***
10.23	Form of Notice of Grant of Stock Options and Option Agreement for 2003 Equity Incentive Plan.(13)***
10.24	Management Incentive Plan (July 24, 2006).(19)***
10.25	Employment Agreement between Registrant and Terry White dated as of April 11, 2005.(14)***
10.26	Amendment to Employment Agreement between Registrant and Terry White dated as of December 31, 2006.(20)***
10.27	Form of Director and Officer Indemnification Agreement.(18)***
10.28	Lease Agreement between the Registrant and 1200 Enterprises LLC dated as of June 1, 2001.(6)
10.29	Second Amendment to Lease Agreement between the Registrant and 1200 Enterprises LLC dated January 19, 2009.(25)
10.30	Agreement between Registrant and Hunchun BaoLi Communication Co., Ltd. (“BAOLI”) dated August 17, 2007.(21)
10.31	First Amendment to Agreement between Registrant and BAOLI dated November 1, 2007(22)
10.32	Second Amendment to Agreement between Registrant and BAOLI dated January 7, 2008.(22)
10.33	Framework Agreement between Registrant and BAOLI dated November 8, 2007.(22)
10.34	Sino-Foreign Equity Joint Venture Contract between Superconductor Investments (Mauritius) Limited and BAOLI dated December 8, 2007 (Exhibit A to Framework Agreement with BAOLI).(22)
10.35	Form of Technology and Trademark License Agreement between Superconductor Investments (Mauritius) Limited, Registrant and BAOLI (Exhibit B to Framework Agreement).(22)
14	Code of Business Conduct and Ethics.(18)
21	List of Subsidiaries.(25)
23.1	Consent of Stonefield Josephson Inc, Independent Registered Public Accounting Firm.(25)
31.1	Statement of CEO Pursuant to 302 of the Sarbanes-Oxley Act of 2002.(25)
31.2	Statement of CFO Pursuant to 302 of the Sarbanes-Oxley Act of 2002.(25)
32.1	Statement of CEO Pursuant to 906 of the Sarbanes-Oxley Act of 2002.(25)
32.2	Statement of CFO Pursuant to 906 of the Sarbanes-Oxley Act of 2002.(25)

- (1) Incorporated by reference from Registrant's Registration Statement on Form S-8 filed April 15, 1998 (File No. 333-50137).
- (2) Incorporated by reference from Registrant's Registration Statement on Form S-8 filed November 4, 1999 (File No. 333-90293).
- (3) Incorporated by reference from Registrant's Current Report on Form 8-K filed October 4, 2000.
- (4) Incorporated by reference from Registrant's Registration Statement on Form S-8 filed March 6, 2001 (File No. 333-56606).
- (5) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
- (6) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended March 30, 2002.
- (7) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 2003.
- (8) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2003, filed March 11, 2004.
- (9) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended April 3, 2004, filed May 12, 2004.
- (10) Incorporated by reference from Registrant's Registration Statement on Form S-3 (File No. 333-117107), filed July 2, 2004.
- (11) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004, filed August 11, 2004.
- (12) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004, filed November 10, 2004.
- (13) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.
- (14) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended April 2, 2005.
- (15) Incorporated by reference from Registrants' Current Report on Form 8-K filed April 4, 2005.
- (16) Incorporated by reference from Registrant's Current Report on Form 8-K filed May 27, 2005.
- (17) Incorporated by reference from Registrant's Current Report on Form 8-K filed August 11, 2005.
- (18) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005.
- (19) Incorporated by reference from Registrant's Current Report on Form 8-K filed July 28, 2006.
- (20) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2006.
- (21) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended September 29, 2007.
- (22) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2007.
- (23) Incorporated by reference from Registrant's Current Report on Form 8-K/A filed February 25, 2008.
- (24) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.
- (25) Filed herewith.

** Confidential treatment has been previously granted for certain portions of these exhibits.

*** This exhibit is a management contract or compensatory plan or arrangement.

(b) Exhibits. See Item 15(a) above.

Report of Independent Registered Public Accounting Firm

To: The Board of Directors and Stockholders of Superconductor Technologies, Inc.
Santa Barbara, California

We have audited the accompanying consolidated balance sheets of Superconductor Technologies, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15(a)(2) as of and for the three years ended December 31, 2009. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Superconductor Technologies, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Further, the accompanying schedule is, in our opinion, fairly stated in all material respects in relation to basic financial statements as a whole.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the company as a going concern. As discussed in Note 2, the Company has incurred significant net losses since its inception and has an accumulated deficit of \$225,665,000 and expects to incur substantial additional losses and costs. The foregoing matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 2 of the accompanying financial statements. These financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ STONEFIELD JOSEPHSON, INC.

Los Angeles, California
March 16, 2010

SUPERCONDUCTOR TECHNOLOGIES INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 10,365,000	\$ 7,569,000
Accounts receivable, net	462,000	355,000
Inventory, net	2,644,000	5,278,000
Prepaid expenses and other current assets	445,000	416,000
Total Current Assets	13,916,000	13,618,000
Property and equipment, net of accumulated depreciation of \$21,076,000 and \$19,943,000, respectively	1,832,000	2,739,000
Patents, licenses and purchased technology, net of accumulated amortization of \$2,384,000 and \$2,055,000, respectively	2,163,000	2,252,000
Investment in joint venture	—	521,000
Other assets	215,000	228,000
Total Assets	\$ 18,126,000	\$ 19,358,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 467,000	\$ 707,000
Accrued expenses	671,000	578,000
Fair value of warrant derivative	171,000	—
Current portion of capitalized lease obligations	50,000	80,000
Total Current Liabilities	1,359,000	1,365,000
Other long term liabilities	526,000	441,000
Total Liabilities	1,885,000	1,806,000
Commitments and contingencies (Notes 7 and 8)		
Stockholders' Equity:		
Preferred stock, \$.001 par value, 2,000,000 shares authorized, 611,523 issued and outstanding	1,000	1,000
Common stock, \$.001 par value, 250,000,000 shares authorized, 22,512,033 and 17,869,030 shares issued and outstanding, respectively	23,000	18,000
Capital in excess of par value	241,882,000	230,219,000
Accumulated deficit	(225,665,000)	(212,686,000)
Total Stockholders' Equity	16,241,000	17,552,000
Total Liabilities and Stockholders' Equity	\$ 18,126,000	\$ 19,358,000

See accompanying notes to the consolidated financial statements

SUPERCONDUCTOR TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ending December 31		
	2009	2008	2007
Net revenues:			
Net commercial product revenues	\$ 7,239,000	\$ 6,768,000	\$ 12,787,000
Government and other contract revenues	3,577,000	4,525,000	5,115,000
Total net revenues	10,816,000	11,293,000	17,902,000
Costs and expenses:			
Cost of commercial product revenues	9,102,000	8,911,000	12,944,000
Cost of government and other contract revenues	2,552,000	3,649,000	2,906,000
Research and development	4,399,000	3,394,000	3,172,000
Selling, general and administrative	6,925,000	8,151,000	8,123,000
Restructuring expenses and impairment charges	—	141,000	—
Total costs and expenses	22,978,000	24,246,000	27,145,000
Loss from operations	(12,162,000)	(12,953,000)	(9,243,000)
Other Income and Expense			
Impairment of asset for, and noncontrolling interest in, joint venture	(638,000)	—	—
Adjustments to fair value of derivatives	(171,000)	—	—
Interest income	24,000	284,000	156,000
Interest expense	(32,000)	(32,000)	(39,000)
Net loss	\$ (12,979,000)	\$ (12,701,000)	\$ (9,126,000)
Basic and diluted net loss per common share	\$ (0.65)	\$ (0.77)	\$ (0.73)
Basic and diluted weighted average number of common shares outstanding	19,842,687	16,402,509	12,487,593

See accompanying notes to the consolidated financial statements

SUPERCONDUCTOR TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Convertible Preferred Stock		Common Stock		Capital in Excess of Par Value	Receivable From Stockholder	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2006	—	\$ —	12,483,367	\$ 12,000	\$ 208,825,000	\$ (27,000)	\$ (190,859,000)	\$ 17,951,000
Exercise of stock options			3,350		26,000			26,000
Issuance of common stock (net of costs)					(27,000)			(27,000)
Stock-based compensation			24,697		339,000			339,000
Reserve for impairment						27,000		27,000
Net loss							(9,126,000)	(9,126,000)
Balance at December 31, 2007	—	\$ —	12,511,414	12,000	209,163,000	—	(199,985,000)	9,190,000
Exercise of stock options								
Issuance of common stock (net of costs)			5,101,361	5,000	10,563,000			10,568,000
Stock-based compensation			256,255	1,000	593,000			594,000
Issuance of Series A Preferred	611,523	1,000			9,900,000			9,901,000
Net loss							(12,701,000)	(12,701,000)
Balance at December 31, 2008	611,523	1,000	17,869,030	18,000	230,219,000	—	(212,686,000)	17,552,000
Exercise of stock options								
Issuance of common stock (net of costs)			3,752,005	4,000	10,452,000			10,456,000
Stock-based compensation			890,998	1,000	1,211,000			1,212,000
Issuance of Series A Preferred								
Net loss							(12,979,000)	(12,979,000)
Balance at December 31, 2009	611,523	\$ 1,000	22,512,033	\$ 23,000	\$ 241,882,000	\$ —	\$ (225,665,000)	\$ 16,241,000

See accompanying notes to the consolidated financial statements.

SUPERCONDUCTOR TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (12,979,000)	\$ (12,701,000)	\$ (9,126,000)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	1,462,000	1,735,000	2,333,000
Stock-based compensation expense	1,212,000	587,000	339,000
Provision for excess and obsolete inventories	282,000	17,000	160,000
Noncontrolling interest in joint venture	117,000	—	—
Fair value of derivatives	171,000	—	—
Asset impairment for joint venture	521,000	—	—
Reserve for impairment of note and interest receivable	—	—	(583,000)
Changes in assets and liabilities:			
Accounts receivable	(107,000)	2,057,000	(877,000)
Inventories	2,352,000	(1,880,000)	2,403,000
Prepaid expenses and other current assets	(147,000)	(26,000)	574,000
Patents and licenses	(240,000)	(315,000)	(169,000)
Other assets	14,000	9,000	16,000
Accounts payable and accrued expenses	(92,000)	(1,603,000)	(465,000)
Net cash used in operating activities	(7,434,000)	(12,120,000)	(5,395,000)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the sale of property and equipment	—	—	26,000
Purchase of property and equipment	(226,000)	(179,000)	(191,000)
Investment in joint venture	—	(521,000)	—
Net cash used in investing activities	(226,000)	(700,000)	(165,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from shares to be issued	—	—	4,000,000
Payments on long-term obligations	—	—	(14,000)
Net proceeds from sale of common stock and exercise of warrants and options	10,456,000	16,450,000	26,000
Net cash provided by financing activities	10,456,000	16,450,000	4,012,000
Net increase (decrease) in cash and cash equivalents	2,796,000	3,630,000	(1,548,000)
Cash and cash equivalents at beginning of year	7,569,000	3,939,000	5,487,000
Cash and cash equivalents at end of year	\$ 10,365,000	\$ 7,569,000	\$ 3,939,000

See accompanying notes to the consolidated financial statements.

SUPERCONDUCTOR TECHNOLOGIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — The Company

Superconductor Technologies Inc. (together with our subsidiaries, “we” or “us”) was incorporated in Delaware on May 11, 1987. We maintain our headquarters in Santa Barbara, California. We develop and produce high temperature superconducting (HTS) materials and associated technologies. We have generated more than 100 patents as well as proprietary trade secrets and manufacturing expertise, providing interference elimination and network enhancement solutions to the commercial wireless industry. In addition, we are now leveraging our key enabling technologies, including radio frequency filtering, HTS materials and cryogenics, to pursue emerging opportunities in the electrical grid and in equipment platforms that utilize electrical circuits.

From 1987 to 1997, we were engaged primarily in research and development and generated revenues primarily from government research contracts. Since then, we have provided solutions for wireless infrastructure in the telecommunications industry. Our commercial product offerings are divided into the following three areas: SuperLink (high-temperature superconducting filters), AmpLink (high performance, ground-mounted amplifiers) and SuperPlex (high performance multiplexers).

Our research and development contracts are used as a source of funds for our commercial technology development. We continue to be involved as either contractor or subcontractor on a number of contracts with the United States government. These contracts have been, and continue to provide, a significant source of revenues for us. For 2009, 2008 and 2007, government related contracts accounted for 32%, 40% and 29%, respectively, of our net revenues.

Note 2 — Summary of Significant Accounting Policies

Basis of Presentation

In 2009, we incurred a net loss of \$13.0 million and had negative cash flows from operations of \$7.4 million. In 2008, we incurred a net loss of \$12.7 million and had negative cash flows from operations of \$12.1 million.

At December 31, 2009 we had \$10.4 million in cash and cash equivalents. Our cash resources, together with our line of credit, may not be sufficient to fund our business through 2010. We believe the key factors to our future liquidity will be our ability to successfully use our expertise and our technology to generate revenues in various ways, including commercial operations, government contracts, joint ventures and licenses. These factors leave substantial doubt about our ability to continue as a going concern. Because of the uncertainty of these factors, we may need to raise funds to meet our working capital needs.

We cannot assure you that additional financing will be available on acceptable terms or at all. If we issue additional equity securities to raise funds, the ownership percentage of our existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise any needed funds, we might be forced to make further substantial reductions in our operating expenses, which could adversely affect our ability to implement our current business plan and ultimately our viability as a company.

Principles of Consolidation

The consolidated financial statements include the accounts of Superconductor Technologies Inc. and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated from the consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less. Cash and cash equivalents are maintained with quality financial institutions and from time to time exceed FDIC limits. Historically, we have not experienced any losses due to such concentration of credit risk.

SUPERCONDUCTOR TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Accounts Receivable

We sell predominantly to entities in the wireless communications industry and to entities of the United States government. We grant uncollateralized credit to our customers. We perform usual and customary credit evaluations of our customers before granting credit. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on historical write-off experience. Past due balances are reviewed for collectibility. Accounts balances are charged off against the allowance when we deem it is probable the receivable will not be recovered. We do not have any off-balance-sheet credit exposure related to our customers.

Revenue Recognition

Commercial revenues are principally derived from the sale of our SuperLink, AmpLink and SuperPlex family of products and are recognized once all of the following conditions have been met: a) an authorized purchase order has been received in writing, b) the customer's credit worthiness has been established, c) shipment of the product has occurred, d) title has transferred, and e) if stipulated by the contract, customer acceptance has occurred and all significant vendor obligations, if any, have been satisfied.

Contract revenues are principally generated under research and development contracts. Contract revenues are recognized utilizing the percentage-of-completion method measured by the relationship of costs incurred to total estimated contract costs. If the current contract estimate were to indicate a loss, utilizing the funded amount of the contract, a provision would be made for the total anticipated loss. Revenues from research-related activities are derived primarily from contracts with agencies of the United States Government. Credit risk related to accounts receivable arising from such contracts is considered minimal. These contracts include cost-plus, fixed price and cost sharing arrangements and are generally short-term in nature.

All payments to us for work performed on contracts with agencies of the U.S. Government are subject to adjustment upon audit by the Defense Contract Audit Agency. Contract audits through 2003 are closed. Based on historical experience and review of current projects in process, we believe that the audits will not have a significant effect on our financial position, results of operations or cash flows.

Shipping and Handling Fees and Costs

Shipping and handling fees billed to customers are included in net commercial product revenues. Shipping and handling fees associated with freight are generally included in cost of commercial product revenues.

Warranties

We offer warranties generally ranging from one to five years, depending on the product and negotiated terms of purchase agreements with our customers. Such warranties require us to repair or replace defective product returned to us during such warranty period at no cost to the customer. Our estimate for warranty related costs is recorded at the time of sale based on our actual historical product return rates and expected repair costs. Such costs have been within our expectations.

Guarantees

In connection with the sales and manufacturing of our commercial products, we indemnify, without limit or term, our customers and contract manufacturers against all claims, suits, demands, damages, liabilities, expenses, judgments, settlements and penalties arising from actual or alleged infringement or misappropriation of any intellectual property relating to our products or other claims arising from our products. We cannot reasonably develop an estimate of the maximum potential amount of payments that might be made under our guarantee because

SUPERCONDUCTOR TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

of the uncertainty as to whether a claim might arise and how much it might total. Historically, we have not incurred any expenses related to these guarantees.

Research and Development Costs

Research and development costs are expensed as incurred and include salary, facility, depreciation and material expenses. Research and development costs incurred solely in connection with research and development contracts are charged to contract research and development expense. Other research and development costs are charged to other research and development expense.

Inventories

Inventories are stated at the lower of cost or market, with costs primarily determined using standard costs, which approximate actual costs utilizing the first-in, first-out method. We review inventory quantities on hand and on order and record, on a quarterly basis, a provision for excess and obsolete inventory and/or vendor cancellation charges related to purchase commitments. If the results of the review determine that a write-down is necessary, we recognize a loss in the period in which the loss is identified, whether or not the inventory is retained. Our inventory reserves establish a new cost basis for inventory and are not reversed until we sell or dispose of the related inventory. Such provisions are established based on historical usage, adjusted for known changes in demands for such products, or the estimated forecast of product demand and production requirements. Costs associated with idle capacity are expensed immediately.

Property and Equipment

Property and equipment are recorded at cost. Equipment is depreciated using the straight-line method over their estimated useful lives ranging from three to five years. Leasehold improvements and assets financed under capital leases are amortized over the shorter of their useful lives or the lease term. Furniture and fixtures are depreciated over seven years. Expenditures for additions and major improvements are capitalized. Expenditures for minor tooling, repairs and maintenance and minor improvements are charged to expense as incurred. When property or equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Gains or losses from retirements and disposals are recorded in selling, general and administrative expenses. There were no disposals in 2009. In 2008, we disposed of older, fully depreciated equipment with an acquisition cost of \$598,000. There was no gain or loss on those dispositions.

Patents, Licenses and Purchased Technology

Patents and licenses are recorded at cost and are amortized using the straight-line method over the shorter of their estimated useful lives or approximately seventeen years. Purchased technology acquired through the acquisition of Conductus, Inc. in 2002 was recorded at its estimated fair value and is amortized using the straight-line method over seven years.

Long-Lived Assets

The realizability of long-lived assets is evaluated periodically as events or circumstances indicate a possible inability to recover the carrying amount. Long-lived assets that will no longer be used in the business are written off in the period identified since they will no longer generate any positive cash flows for us. Periodically, long lived assets that will continue to be used by us will need to be evaluated for recoverability. Such evaluation is based on various analyses, including cash flow and profitability projections. The analyses necessarily involve significant management judgment. In the event the projected undiscounted cash flows are less than net book value of the assets, the carrying value of the assets will be written down to their estimated fair value. We tested our long lived assets for recoverability during 2009 and determined there was no impairment.

SUPERCONDUCTOR TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Restructuring Expenses

Liability for costs associated with an exit or disposal activity are recognized when the liability is incurred.

Loss Contingencies

In the normal course of our business we are subject to claims and litigation, including allegations of patent infringement. Liabilities relating to these claims are recorded when it is determined that a loss is probable and the amount of the loss can be reasonably estimated. The costs of our defense in such matters are expensed as incurred. Insurance proceeds recoverable are recorded when deemed probable.

Income Taxes

We recognize deferred tax liabilities and assets based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit (expense) results from the change in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all deferred tax assets will not be realized. The guidance further clarifies the accounting for uncertainty in income taxes and sets a consistent framework to determine the appropriate level of tax reserve to maintain for uncertain tax positions. This interpretation uses a two-step approach wherein a tax benefit is recognized if a position is more-likely-than-not to be sustained. The amount of the benefit is then measured to be the highest tax benefit that is greater than 50% likely to be realized and sets out disclosure requirements to enhance transparency of our tax reserves. Guidance is also provided on the accounting for related interest and penalties, financial statement and disclosure. We are currently not under examination by any taxing authority nor have we been notified of an impending examination. The oldest tax year that remains open to possible evaluation and interpretation of our tax position is 1995. As of December 31, 2009, we had net operating loss carryforwards for federal and state income tax purposes of approximately \$298.8 million and \$169.9 million, respectively. Due to the uncertainty surrounding their realization, we recorded a full valuation allowance against our net deferred tax assets. Accordingly, no deferred tax asset has been recorded in the accompanying balance sheets.

Marketing Costs

All costs related to marketing and advertising our products are expensed as incurred or at the time the advertising takes place. Advertising costs were not material in each of the three years in the period ended December 31, 2009.

Net Loss Per Share

Basic and diluted net loss per share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding in each year. Net loss available to common stockholders is computed after deducting accumulated dividends on cumulative preferred stock, deemed dividends and accretion of redemption value on redeemable preferred stock for the period and beneficial conversion features on issuance of convertible preferred stock. Potential common shares are not included in the calculation of diluted loss per share because their effect is anti-dilutive.

Stock-based Compensation Expense

We have in effect several equity incentive plans under which stock options and awards have been granted to employees and non-employee members of the Board of Directors. We are required to estimate the fair value of share-based awards on the date of grant. The value of the award is principally recognized as expense ratably over the requisite service periods. We have estimated the fair value of stock options as of the date of grant using the Black-Scholes option pricing model. The Black-Scholes model considers, among other factors, the expected life of the

SUPERCONDUCTOR TECHNOLOGIES INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

award and the expected volatility of our stock price. We evaluate the assumptions used to value stock options on a quarterly basis. The fair values generated by the Black-Scholes model may not be indicative of the actual fair values of our equity awards, as it does not consider other factors important to those awards to employees, such as continued employment and periodic vesting.

The following table presents details of total stock-based compensation expense that is included in each functional line item on our consolidated statements of income:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cost of revenue	\$ 32,000	\$ 22,000	\$ 14,000
Research and development	287,000	122,000	56,000
Selling, general and administrative	893,000	443,000	269,000
	<u>\$ 1,212,000</u>	<u>\$ 587,000</u>	<u>\$ 339,000</u>

The impact to the Consolidated Statement of Operations for 2009, 2008 and 2007 on basic and diluted earnings per share was \$0.06, \$0.04 and \$0.03, respectively. No stock compensation cost was capitalized during the periods.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us 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 periods. The significant estimates in the preparation of the financial statements relate to the assessment of the carrying amount of accounts receivable, inventory, fixed assets, intangibles, goodwill, estimated provisions for warranty costs, accruals for restructuring and lease abandonment costs, contract revenues, income taxes and disclosures related to the litigation. Actual results could differ from those estimates and such differences may be material to the financial statements.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value due to the short-term nature of these instruments. We estimate that the carrying amount of debt approximates fair value based on our current incremental borrowing rates for similar types of borrowing arrangements.

Comprehensive Income

We have no items of other comprehensive income in any period and consequently have not included a Statement of Comprehensive Income.

Segment Information

We operate in a single business segment, the research, development, manufacture and marketing of high performance products used in cellular base stations to maximize the performance of wireless telecommunications networks by improving the quality of uplink signals from mobile wireless devices. We currently derive net commercial product revenues primarily from the sales of our SuperLink, AmpLink and SuperPlex products. We currently sell most of our products directly to wireless network operators in the United States. Net revenues derived principally from government research and development contracts are presented separately on the condensed consolidated statement of operations for all periods presented.

SUPERCONDUCTOR TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Certain Risks and Uncertainties

Our long-term prospects are dependent upon the continued and increased market acceptance for our products.

We currently sell most of our products directly to wireless network operators in the United States and our product sales have historically been concentrated in a small number of customers. In 2009, we had two customers that represented 51% and 11% of total net revenues and 38% of accounts receivable. In 2008, these two customers represented 44% and 13% of total net revenues and 7% of accounts receivable. The loss of or reduction in sales, or the inability to collect outstanding accounts receivable, from any of these customers could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We currently rely on a limited number of suppliers for key components of our products. The loss of any of these suppliers could have material adverse effect on our business, financial condition, results of operations and cash flows.

In connection with the sales of our commercial products, we indemnify, without limit or term, our customers against all claims, suits, demands, damages, liabilities, expenses, judgments, settlements and penalties arising from actual or alleged infringement or misappropriation of any intellectual property relating to our products or other claims arising from our products. We cannot reasonably develop an estimate of the maximum potential amount of payments that might be made under our guarantee because of the uncertainty as to whether a claim might arise and how much it might total.

For more risks of our business, see Item 1A, “Risk Factors” in our Annual Report on Form 10-K and other filings with the Securities and Exchange Commission.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“Codification”) was issued. The Codification is the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. The Codification is effective for financials statements issued for interim and annual periods ending after September 15, 2009. The implementation of this standard did not have a material impact on our consolidated financial position or results of operations.

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities. The guidance affects the overall consolidation analysis and requires enhanced disclosures on involvement with variable interest entities. The guidance was effective for fiscal years beginning after November 15, 2009. Implementation did not have a material impact on our consolidated financial position or results of operations.

In September 2009, the FASB issued additional guidance on measuring the fair value of liabilities effective for the first reporting period (including interim periods) beginning after issuance. We do not expect that implementation of this guidance will have a material impact on our consolidated financial position or results of operations.

In September 2009, the FASB issued additional guidance on measuring fair value of certain alternative investments effective for the first reporting period (including interim periods) ending after December 15, 2009. Implementation has not had a material impact on our consolidated financial position or results of operations.

In October 2009, the FASB issued amendments to the accounting and disclosure for revenue recognition. These amendments, effective for fiscal years beginning on or after June 15, 2010 (early adoption is permitted), modify the criteria for recognizing revenue in multiple element arrangements and the scope of what constitutes a non-software deliverable. We are currently assessing the impact on our consolidated financial position or results of operations.

In January 2010, the FASB issued guidance that requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in

SUPERCONDUCTOR TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

the reconciliation of Level 3 fair value measurements. The guidance is effective for annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures that are effective for annual periods beginning after December 15, 2010. We do not expect the adoption of this guidance to have a material impact on our consolidated financial position or results of operations.

Note 3 — Short Term Borrowings

We have a line of credit with a bank. There was no amount outstanding under this borrowing facility at December 31, 2009. The line of credit expires July 2010 and is structured as a sale of accounts receivable. The agreement provides for the sale of up to \$3.0 million of eligible accounts receivable, with advances to us totaling 80% of the receivables sold. Any advances would bear interest at the bank's prime rate (4.0% at December 31, 2009) plus 2.50% subject to a minimum monthly charge. Advances (if any) under the agreement are collateralized by all of our assets. Under the terms of the agreement, we continue to service the sold receivables and are subject to recourse provisions.

The agreement contains representations and warranties, affirmative and negative covenants and events of default customary for financings of this type. The failure to comply with these provisions, or the occurrence of any one of the events of default, would prevent any further borrowings and would generally require the repayment of any outstanding borrowings. Such representations, warranties and events of default include (a) non-payment of debt and interest hereunder, (b) non-compliance with terms of the agreement covenants, (c) insolvency or bankruptcy, (d) material adverse change, (e) merger or consolidation where our stockholders do not hold a majority of the voting rights of the surviving entity, (f) transactions outside the normal course of business, or (g) payment of dividends.

Note 4 — Income Taxes

We incurred a net loss in each year of operation since inception resulting in no current or deferred tax expense for 2009, 2008 and 2007.

The benefit for income taxes differs from the amount obtained by applying the federal statutory income tax rate to loss before benefit for income taxes for 2009, 2008 and 2007 as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Tax benefit computed at Federal statutory rate	34.0%	34.0%	34.0%
Increase (decrease) in taxes due to:			
Change in valuation allowance	(39.8)	(39.8)	(39.8)
State taxes, net of federal benefit	5.8	5.8	5.8
Impairment of Goodwill (not deductible for tax)	—	—	—
	<u>—%</u>	<u>—%</u>	<u>—%</u>

The significant components of deferred tax assets (liabilities) at December 31 are as follows:

	<u>2009</u>	<u>2008</u>
Loss carryforwards	\$ 112,187,000	\$ 108,940,000
Capitalized research and development	1,102,000	1,468,000
Depreciation	2,582,000	2,541,000
Tax credits	3,984,000	3,916,000
Inventory	330,000	343,000
Acquired intellectual property	(90,000)	(90,000)
Other	514,000	540,000
Less: valuation allowance	<u>(120,609,000)</u>	<u>(117,658,000)</u>
	<u>\$ —</u>	<u>\$ —</u>

SUPERCONDUCTOR TECHNOLOGIES INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The valuation allowance increased by \$2,951,000 in 2009, \$2,376,000 in 2008, and \$3,129,000 in 2007.

As of December 31, 2009, we had net operating loss carryforwards for federal and state income tax purposes of approximately \$298.8 million and \$169.9 million, respectively, which expire in the years 2010 through 2029. Of these amounts \$80.9 million and \$23.5 million, respectively, resulted from the acquisition of Conductus. Included in the net operating loss carryforwards are deductions related to stock options of approximately \$24.1 million and \$13.1 million for federal and California income tax purposes, respectively. To the extent net operating loss carryforwards are recognized for accounting purposes the resulting benefits related to the stock options will be credited to stockholders' equity. In addition, we had research and development and other tax credits for federal and state income tax purposes of approximately \$3.1 million and \$1.4 million, respectively, which expire in the years 2010 through 2029. Of these amounts \$549,000 and \$581,000, respectively resulted from the acquisition of Conductus.

Due to the uncertainty surrounding their realization, we have recorded a full valuation allowance against our net deferred tax assets. Accordingly, no deferred tax asset has been recorded in the accompanying balance sheet.

Section 382 of the Internal Revenue Code imposes an annual limitation on the utilization of net operating loss carryforwards and other tax attributes based on a statutory rate of return (usually the "applicable federal funds rate", as defined in the Internal Revenue Code) and the value of the corporation at the time of a "change of ownership" as defined by Section 382. We had changes in ownership in August 1999, December 2002, and June 2009. In addition, we acquired the right to Conductus' net operating losses, which are also subject to the limitations imposed by Section 382. Conductus underwent four ownership changes, which occurred in February 1999, February 2001, December 2002 and June 2009. Therefore, the ability to utilize Conductus' and our net operating loss carryforwards will be subject to annual limitation upon utilization in future periods. We are currently studying the impact of these Section 382 limitations on the future realizability of our various tax attributes.

Note 5 — Stockholders' Equity***Preferred Stock***

Pursuant to our Certificate of Incorporation, the Board of Directors is authorized to issue up to 2,000,000 shares of preferred stock (par value \$.001 per share) in one or more series and to fix the rights, preferences, privileges, and restrictions, including the dividend rights, conversion rights, voting rights, redemption price or prices, liquidation preferences, and the number of shares constituting any series or the designation of such series. In February 2008, we issued to Hunchun BaoLi Communication Co. Ltd. ("BAOLI") and two related purchasers a total of (a) 3,101,361 shares of our common stock and (b) 611,523 shares of our Series A Preferred Stock (convertible into 6,115,230 shares of our common stock) in exchange for net proceeds of \$14.9 million in cash after offering costs of \$89,000, of which \$4.0 million was received in 2007. Subject to the terms and conditions of our Series A Preferred Stock and to customary adjustments to the conversion rate, each share of our Series A Preferred Stock is convertible into ten shares of our common stock so long as the number of shares of our common stock beneficially owned by BAO LI and affiliates following such conversion does not exceed 9.9% of our outstanding common stock. Except for a preference on liquidation of \$.01 per share, each share of Series A Preferred Stock is the economic equivalent of the ten shares of common stock into which it is convertible. There is no beneficial conversion feature related to the conversion of the preferred shares, as the value of the common shares into which the preferred shares convert does not exceed the recorded amount of the preferred at date of issuance. Except as required by law, the Series A Preferred Stock does not have any voting rights.

Common Stock

In a registered direct offering completed in June 2009 we raised proceeds of \$10.5 million, net of offering costs of \$800,000, from the sale of 3,752,005 shares of common stock at \$3.00 per share based on a negotiated discount to market.

SUPERCONDUCTOR TECHNOLOGIES INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

In a registered direct offering completed in May 2008 we raised net proceeds of \$5.6 million, net of offering costs of \$442,000, from the sale of 2,000,000 shares of common stock at \$3.00 per share based on a negotiated discount to market. For both the 2008 and 2009 offerings, we determined the offering price based principally on negotiations between us, the placement agent and the selected institutional investors and on our consideration of the closing prices (including high, low and average prices) and trading volumes of our common stock on the Nasdaq Capital Market primarily during the 30 trading days proceeding the date we determined the offering price.

As noted above, in February 2008, we issued to BAOLI and two related purchasers a total of (a) 3,101,361 shares of our common stock and (b) 611,523 shares of our Series A Preferred Stock (convertible into 6,115,230 shares of our common stock) in exchange for net proceeds of \$14.9 million in cash net of offering costs of \$89,000.

Other than the \$4.0 million cash deposit on the BAOLI stock sale described above, we raised no money from the sale of our common stock in 2007.

Equity Awards

At December 31, 2009, we have four equity award option plans, the nonstatutory 1992 Directors Stock Option Plan, 1998 and 1999 Stock Option Plans and the 2003 Equity Incentive Plan (collectively, the "Stock Option Plans") although we can only grant new options under the 2003 Equity Incentive Plan. Under the 2003 Equity Incentive Plan, stock awards may be made to our directors, key employees, consultants, and non-employee directors and may consist of stock options, stock appreciation rights, restricted stock awards, performance awards, and performance share awards. Stock options must be granted at prices no less than the market value on the date of grant.

At December 31, 2009, 213,380 shares of common stock were available for future grants under the 2003 Equity Incentive Plan.

There were no stock option exercises in 2009 or 2008 and 3,350 shares were issued upon option exercises in 2007.

We did not grant stock options in 2009. For 2008 and 2007, the weighted average fair value of options has been estimated at the date of the grant using the Black-Scholes option-pricing model. The following are the significant weighted average assumptions used for estimating the fair value under our stock option plans:

	<u>2008</u>	<u>2007</u>
Per share fair value at grant date	\$ 3.57	\$ 2.15
Risk free interest rate	2.47%	4.34%
Expected volatility	109%	98%
Dividend yield	0%	0%
Expected life in years	4.0	4.0

The expected life was based on the contractual term of the options and the expected employee exercise behavior. Typically, options to our employees have a 3 or 4 year vesting term and a 10 year contractual term. Options vest at 33% or 25%, respectively, after one year and thereafter vest ratably on a monthly basis. Options to Board Members have a 10 year contractual term and vest 50% after one year and 50% after two years. The risk-free interest rate is based on the U.S. Treasury zero-coupon issues with a remaining term equal to the expected option life assumed at the grant date. The future volatility is based on our 4 year historical volatility. We used an expected

SUPERCONDUCTOR TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

dividend yield of 0% because we have never paid a dividend and do not anticipate paying dividends. We assumed a 10% aggregate forfeiture rate based on historical stock option cancellation rates over the last 4 years.

At December 31, 2009, 213,380 shares of common stock were available for future grants and options covering 1,144,876 shares were outstanding but not yet exercised. Option activity during the three years ended December 31, 2009 was as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2006	1,154,941	\$ 38.33
Granted	45,670	2.96
Canceled	(455,403)	41.68
Exercised	(3,350)	7.42
Outstanding at December 31, 2007	741,858	34.24
Granted	576,590	4.83
Canceled	(84,423)	9.60
Exercised	—	—
Outstanding at December 31, 2008	1,234,025	22.18
Granted	—	—
Canceled	(89,149)	48.20
Exercised	—	—
Outstanding at December 31, 2009	1,144,876	\$ 20.16

The following table summarizes information concerning currently outstanding and exercisable stock options at December 31, 2009:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Exercisable	
				Number Exercisable	Weighted Average Exercise Price
\$1.43 — \$4.90	205,600	7.58	\$ 3.67	132,249	\$ 3.65
5.12 — 5.80	412,912	8.13	5.12	312,090	5.12
6.70 — 7.02	232,500	5.39	6.90	232,500	6.90
8.00 — 39.38	158,978	1.88	19.28	158,978	19.28
40.00 — 493.75	134,886	.89	115.22	134,886	115.22
	<u>1,144,876</u>	5.75	\$ 20.16	<u>970,703</u>	\$ 22.96

Our outstanding options expire on various dates through July 2018. The weighted-average contractual term of outstanding options is 5.75 years and the weighted-average contractual term of currently exercisable stock options is slightly less than 5.75 years. At December 31, 2009, outstanding options covering 15,700 shares, with an intrinsic value of \$28,000, had an exercise price less than the current market value and 11,838 of these shares, with an intrinsic value of \$21,000 were exercisable. The number of options exercisable and weighted average exercise price at December 31, 2008 and 2007 totaled 674,061 and \$36.67 and 663,174 and \$37.87, respectively.

In May 2009, we issued awards covering 55,000 shares of restricted stock, vesting 50% after one year of service and 50% after two years of service. The per share weighted average grant-date fair value was \$3.24. In January 2009, we issued awards covering 835,998 shares of restricted stock, vesting 50% after one year of service and 50% after two years of service. The per share weighted average grant-date fair value was \$1.00. In

SUPERCONDUCTOR TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

September 2008, we issued awards covering 20,000 shares of restricted stock, all vesting after two years of service, with a per share weighted average grant-date fair value of \$1.62. A 10% aggregate forfeiture rate was assumed for all awards.

In July 2006, we issued restricted stock awards totaling 331,000 shares with a cliff vest after two years of service and a per share weighted average grant-date fair value of \$1.50. A 10% forfeiture rate was assumed. In July 2008, 302,000 of these shares fully vested in one single installment and have been expensed over the prior periods as compensation expense. We issued 256,255 of these shares and withheld 45,745 shares for statutory minimum tax withholding requirements.

The impact of all equity awards on the condensed consolidated statements of operations for 2009 was an expense of \$1.2 million and \$0.06 on basic and diluted earnings per share. The 2008 and 2007 impact on net income was an expense of \$587,000 and \$339,000, respectively, and \$0.04 and \$0.03 on basic and diluted earnings per share, respectively. No stock compensation cost was capitalized during the periods. The total compensation cost related to non-vested option awards not yet recognized was \$1.1 million and the weighted-average period over which the cost is expected to be recognized is 1.2 years. The total compensation cost related to non-vested stock awards not yet recognized was \$318,000, and the weighted-average period over which the cost is expected to be recognized is 8 months.

Warrants

The following is a summary of outstanding warrants at December 31, 2009:

	Common Shares			Expiration Date
	Total	Currently Exercisable	Price per Share	
Warrants related to August 2005 financing	608,237	608,237	\$ 6.25	August 16, 2010***
Warrants related to April 2004 financing	10,000	10,000	\$ 18.50	April 28, 2011*
Total	618,237	618,237		

* The terms of these warrants contain net exercise provisions, under which holders can elect to receive common stock equal to the difference between the exercise price and the sale price for common shares on the exercise date or the date immediately preceding the exercise date instead of paying the exercise price in cash.

** These warrants contain special anti-dilution adjustment provisions relating to the price of other issuances. Under the issuances in 2009, the exercise price of these warrants was adjusted to \$6.25.

We determined that the 608,237 warrants related to issuance of common stock are subject to fair value accounting as a derivative. Using the Black-Scholes valuation model, the significant weighted average assumptions for estimating the fair value of these warrants at December 31, 2009 were as follows: expected life of 8 months; risk free interest rate of 0.2%; expected volatility of 118% and; dividend yield of 0%. The December 31, 2009 fair value of those warrants was estimated to be \$171,000.

No warrants were exercised during 2009 and 2008. During 2007, the BAOLI offering caused the exercise price and the number of shares of certain warrants issued in 2004 to be adjusted to \$8.34 and 110,880, respectively. In November 2007, the holder of these warrants elected the net exercise provision of this warrant, and received 24,697 shares of our common stock.

Note 6 — Employee Savings Plan

In December 1989, the Board of Directors approved a 401(k) savings plan (the “401(k) Plan”) for our employees that became effective in 1990. Eligible employees may elect to make contributions under the terms of the

SUPERCONDUCTOR TECHNOLOGIES INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

401(k) Plan; however, contributions by us are made at the discretion of management. We contributed \$241,000 to the 401(k) Plan in 2009 and \$287,000 in 2008 and made no contributions to the 401(k) Plan in 2007.

Note 7 — Commitments and Contingencies***Operating Leases***

We lease our offices and production facilities under a non-cancelable operating lease that expires in November 2016. This lease contains a minimum rent escalation clause that requires additional rental amounts after the first year. Rent expense for this lease with minimum annual rent escalation is recognized on a straight line basis over the minimum lease term. This lease also requires us to pay utilities, insurance, taxes and other operating expenses and contains one five-year renewal option at 95% of the then current market rental value.

For 2009, 2008 and 2007, rent expense was \$1,126,000, \$1,122,000 and \$1,104,000, respectively.

Capital Leases

We leased certain property and equipment under a capital lease arrangement that expired in 2007.

Patents and Licenses

We have entered into various licensing agreements requiring royalty payments ranging from 0.13% to 2.5% of specified product sales. Certain of these agreements contain provisions for the payment of guaranteed or minimum royalty amounts. In the event that we fail to pay any minimum annual royalties, these licenses may automatically be terminated. These royalty obligations terminate in 2010 to 2020. Royalty expenses totaled \$161,000 in 2009, \$150,000 in 2008 and \$172,000 in 2007. Under the terms of certain royalty agreements, royalty payments made may be subject to audit. There have been no audits to date and we do not expect any possible future audit adjustments to be significant.

The minimum lease payments under operating and capital leases and license obligations are as follows:

<u>Years Ended December 31,</u>	<u>Licenses</u>	<u>Operating Leases</u>
2010	\$ 175,000	\$ 1,307,000
2011	175,000	1,338,000
2012	175,000	1,369,000
2013	175,000	1,401,000
2014	180,000	1,442,000
Thereafter	930,000	2,884,000
Total payments	<u>\$ 1,810,000</u>	<u>\$ 9,741,000</u>

Note 8 — Contractual Guarantees and Indemnities

During our normal course of business, we make certain contractual guarantees and indemnities pursuant to which we may be required to make future payments under specific circumstances. We have not recorded any liability for these contractual guarantees and indemnities in the accompanying consolidated financial statements.

Warranties

We establish reserves for future product warranty costs that are expected to be incurred pursuant to specific warranty provisions with our customers. Our warranty reserves are established at the time of sale and updated

SUPERCONDUCTOR TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

throughout the warranty period based upon numerous factors including historical warranty return rates and expenses over various warranty periods.

Intellectual Property Indemnities

We indemnify certain customers and our contract manufacturers against liability arising from third-party claims of intellectual property rights infringement related to our products. These indemnities appear in development and supply agreements with our customers as well as manufacturing service agreements with our contract manufacturers, are not limited in amount or duration and generally survive the expiration of the contract. Given that the amount of any potential liabilities related to such indemnities cannot be determined until an infringement claim has been made, we are unable to determine the maximum amount of losses that we could incur related to such indemnifications.

Director and Officer Indemnities and Contractual Guarantees

We have entered into indemnification agreements with our directors and executive officers, which require us to indemnify such individuals to the fullest extent permitted by Delaware law. Our indemnification obligations under such agreements are not limited in amount or duration. Certain costs incurred in connection with such indemnifications may be recovered under certain circumstances under various insurance policies. Given that the amount of any potential liabilities related to such indemnities cannot be determined until a lawsuit has been filed against a director or executive officer, we are unable to determine the maximum amount of losses that we could incur relating to such indemnifications. Historically, any amounts payable pursuant to such director and officer indemnifications have not had a material negative effect on our business, financial condition or results of operations.

We have also entered into severance and change in control agreements with certain of our executives. These agreements provide for the payment of specific compensation benefits to such executives upon the termination of their employment with us.

General Contractual Indemnities/Products Liability

During the normal course of business, we enter into contracts with customers where we agreed to indemnify the other party for personal injury or property damage caused by our products. Our indemnification obligations under such agreements are not generally limited in amount or duration. Given that the amount of any potential liabilities related to such indemnities cannot be determined until a lawsuit has been filed against a director or executive officer, we are unable to determine the maximum amount of losses that we could incur relating to such indemnifications. Historically, any amounts payable pursuant to such guarantees have not had a material negative effect on our business, financial condition or results of operations. We maintain general and product liability insurance as well as errors and omissions insurance, which may provide a source of recovery to us in the event of an indemnification claim.

Short Term Borrowings

We have a line of credit with a bank. The line of credit expires July 2010 and is structured as a sale of accounts receivable. The agreement provides for the sale of up to \$3.0 million of eligible accounts receivable, with advances to us totaling 80% of the receivables sold. Advances under the agreement (*See Note 3*) are collateralized by all our assets. Under the terms of the agreement, we continue to service the sold receivables and are subject to recourse provisions. Under the terms of the agreement, if the bank determines that there is a material adverse change in our business, they can exercise all their rights and remedies under the agreement, including demanding immediate payment of outstanding amounts. There was no amount outstanding under this facility during 2009.

SUPERCONDUCTOR TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Contractual Contingency

We had a contract to deliver several custom products to a government contractor, with respect to which delivery of the product was delayed because we were unable to manufacture the products for technical reasons. In December 2008, new terms and amended specifications were agreed upon and in September 2009 we delivered and the customer accepted the products.

Note 9 — Legal Proceedings

From time to time, we are party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of our business. Excluding ordinary, routine litigation incidental to our business, we are not currently a party to any legal proceedings that we believe would reasonably be expected to have a material adverse effect on our business, financial condition or results of operation or cash flow.

Note 10 — Earnings Per Share

Basic and diluted earnings (loss) per share is based on the weighted-average number of common shares outstanding.

Since their impact would be anti-dilutive, our loss per common share does not include the effect of the assumed exercise or vesting of any of the following shares:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Outstanding stock options	1,144,876	1,234,025	741,858
Outstanding stock awards	910,998	20,000	331,000
Outstanding warrants	618,237	352,466	468,745
Total	<u>2,674,111</u>	<u>1,606,491</u>	<u>1,541,603</u>

Note 11 — Restructuring Expenses and Impairment Charges

There were no restructuring expenses or impairment charges in 2009 or 2007. In December 2008, we initiated an effort to reduce our cost structure and incurred \$141,000 in severance related expense. Severance expense included in cost of goods sold was \$19,000 and severance expense included in operating expenses was \$122,000.

Note 12 — Details of Certain Financial Statement Components and Supplemental Disclosures of Cash Flow Information and Non-Cash Activities

Balance Sheet Data:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Accounts receivable:		
Accounts receivable-trade	\$ 204,000	\$ 110,000
U.S. government accounts receivable-billed	269,000	320,000
Less: allowance for doubtful accounts	<u>(11,000)</u>	<u>(75,000)</u>
	<u>\$ 462,000</u>	<u>\$ 355,000</u>

SUPERCONDUCTOR TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Inventories:		
Raw materials	\$ 2,010,000	\$ 2,753,000
Work-in-process	543,000	1,038,000
Finished goods	919,000	2,348,000
Less: inventory reserves	(828,000)	(861,000)
	<u>\$ 2,644,000</u>	<u>\$ 5,278,000</u>

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Property and Equipment:		
Equipment	\$ 15,743,000	\$ 15,537,000
Leasehold improvements	6,761,000	6,741,000
Furniture and fixtures	404,000	404,000
	<u>22,908,000</u>	<u>22,682,000</u>
Less: accumulated depreciation and amortization	(21,076,000)	(19,943,000)
	<u>\$ 1,832,000</u>	<u>\$ 2,739,000</u>

Depreciation expense amounted to \$1,134,000, \$1,401,000 and \$1,877,000 respectively, in 2009, 2008 and 2007. In 2007 and 2008, we disposed of older, fully depreciated equipment with an acquisition cost of \$1,344,000 and \$598,000, respectively. There were no gains or losses from these dispositions.

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Patents and Licenses:		
Patents pending	\$ 1,118,000	\$ 940,000
Patents issued	1,141,000	1,059,000
Less accumulated amortization	(477,000)	(409,000)
Net patents issued	664,000	650,000
Licenses pending	18,000	39,000
Licenses	563,000	563,000
Less accumulated amortization	(200,000)	(167,000)
Net licenses Issued	363,000	396,000
Purchased technology	1,706,000	1,706,000
Less accumulated amortization	(1,706,000)	(1,479,000)
Net purchased technology	—	227,000
	<u>\$ 2,163,000</u>	<u>\$ 2,252,000</u>

SUPERCONDUCTOR TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Amortization expense related to these items totaled \$328,000, \$334,000 and \$331,000 respectively in 2009, 2008 and 2007. Amortization expenses related to these items are expected to total \$105,000 in 2010 and 2011.

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Accrued Expenses and Other Long Term Liabilities:		
Salaries payable	\$ 107,000	\$ 12,000
Compensated absences	397,000	375,000
Compensation related	39,000	12,000
Warranty reserve	255,000	261,000
Deferred rent	384,000	325,000
Other	<u>236,000</u>	<u>114,000</u>
Total	1,418,000	1,099,000
Less current portion	(892,000)	(658,000)
Long term portion	\$ 526,000	\$ 441,000

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Warranty Reserve Activity:			
Beginning balance	\$ 261,000	\$ 380,000	\$ 428,000
Additions	17,000	41,000	75,000
Deductions	<u>(23,000)</u>	<u>(160,000)</u>	<u>(123,000)</u>
Ending balance	\$ 255,000	\$ 261,000	\$ 380,000

Lease Abandonment Costs:			
Beginning balance	—	—	\$ 8,000
Additions	—	—	—
Transfers from unfavorable lease costs	—	—	—
Deductions	<u>—</u>	<u>—</u>	<u>(8,000)</u>
Ending balance	\$ —	\$ —	\$ —

Product Line Exit Costs:			
Beginning balance	—	—	\$ 319,000
Additions	—	—	—
Deductions	<u>—</u>	<u>—</u>	<u>(319,000)</u>
Change in estimate relating to previous exit costs accrual	—	—	—
Ending balance	\$ —	\$ —	\$ —

Severance Costs:			
Beginning balance	—	—	\$ 32,000
Additions	—	141,000	—
Deductions	<u>—</u>	<u>—</u>	<u>(32,000)</u>
Ending balance	\$ —	\$ 141,000	\$ —

SUPERCONDUCTOR TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Supplemental Cash Flow Information:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash paid for interest	\$ 32,000	\$ 32,000	\$ 32,000

Quarterly Financial Data (Unaudited)

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
2009				
Net revenues(1)	\$ 1,677,000	\$ 2,631,000	\$ 4,292,000	\$ 2,216,000
Loss from operations(2)	3,496,000	3,286,000	2,179,000	3,201,000
Net loss	3,542,000	4,108,000	1,819,000	3,510,000
Basic and diluted loss per common share	\$ (0.20)	\$ (0.23)	\$ (0.08)	\$ (0.16)
Weighted average number of shares outstanding	17,869,030	18,170,470	21,621,035	21,621,035
2008				
Net revenues(1)	\$ 3,471,000	\$ 2,949,000	\$ 3,595,000	\$ 1,278,000
Loss from operations(2)	2,398,000	3,411,000	3,294,000	3,850,000
Net loss	2,308,000	3,349,000	3,235,000	3,809,000
Basic and diluted loss per common share	\$ (0.17)	\$ (0.21)	\$ (0.18)	\$ (0.21)
Weighted average number of shares outstanding	13,636,083	16,316,072	17,750,761	17,869,030

- (1) Our revenues vary from quarter to quarter as our customers provide minimal lead-time prior to the release of their purchase orders and have non-binding commitments to purchase from us.
- (2) Includes increased reserve for inventory obsolescence of \$12,000, \$90,000, \$90,000 and \$90,000, respectively, in the 2009 quarters and \$0, \$15,000, \$0 and \$2,000, respectively, in the 2008 quarters.

SUPERCONDUCTOR TECHNOLOGIES INC.
Schedule II — Valuation and Qualifying Accounts

	Additions				
	Beginning Balance	Charged to Costs & Expenses	Charged to Other Accounts	Deductions	Ending Balance
2009					
Allowance for Uncollectible Accounts	\$ 75,000	\$ —	\$ —	\$ (64,000)	\$ 11,000
Reserve for Inventory Obsolescence	861,000	611,000	—	(644,000)	828,000
Reserve for Warranty	261,000	43,000	—	(49,000)	255,000
Deferred Tax Asset Valuation Allowance	117,658,000	2,951,000	—	—	120,609,000
2008					
Allowance for Uncollectible Accounts	75,000	—	—	—	75,000
Reserve for Inventory Obsolescence	1,015,000	17,000	—	(171,000)	861,000
Reserve for Warranty	380,000	41,000	—	(160,000)	261,000
Deferred Tax Asset Valuation Allowance	115,282,000	2,376,000	—	—	117,658,000
2007					
Allowance for Uncollectible Accounts	75,000	—	—	—	75,000
Impairment for Notes Receivable from Stockholder	1,007,000	(583,000)	—	(424,000)	—
Reserve for Inventory Obsolescence	1,367,000	(195,000)	—	(157,000)	1,015,000
Reserve for Warranty	428,000	75,000	—	(123,000)	380,000
Deferred Tax Asset Valuation Allowance	\$ 112,153,000	\$ 3,129,000	\$ —	\$ —	\$ 115,282,000

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, on this 17th day of March 2010.

SUPERCONDUCTOR TECHNOLOGIES INC.

By: /s/ Jeffrey A. Quiram

Jeffrey A. Quiram
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL THESE PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints William J. Buchanan, his attorney-in-fact, with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jeffrey A. Quiram</u> Jeffrey A. Quiram	President, Chief Executive Officer and Director (Principal Executive Officer)	March 17, 2010
<u>/s/ William J. Buchanan</u> William J. Buchanan	Controller (Principal Accounting Officer) (Principal Financial Officer)	March 17, 2010
<u>/s/ David W. Vellequette</u> David W. Vellequette	Director	March 17, 2010
<u>/s/ Lynn J. Davis</u> Lynn J. Davis	Director	March 17, 2010
<u>/s/ Dennis J. Horowitz</u> Dennis J. Horowitz	Director	March 17, 2010
<u>/s/ Martin A. Kaplan</u> Martin A. Kaplan	Director	March 17, 2010
<u>/s/ John D. Lockton</u> John D. Lockton	Chairman of the Board	March 17, 2010

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 04:33 PM 09/21/2000
001477840 — 2125868

**RESTATED
CERTIFICATE OF INCORPORATION
OF
SUPERCONDUCTOR TECHNOLOGIES INC.
(Originally incorporated on May 11, 1987)**

ARTICLE I

The name of this corporation is “Superconductor Technologies Inc.”

ARTICLE II

The address of its registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

ARTICLE III

The nature of the business or purposes to be conducted or promoted by the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

ARTICLE IV

Section 1. The Corporation is authorized to issue two classes of shares to be designated respectively Common Stock and Preferred Stock. The total number of shares of common Stock which the Corporation shall have authority to issue is 75,000,000, having a par value of \$0.001 per share (the “Common Stock”), and the total number of shares of Preferred Stock this Corporation shall have authority to issue is 2,000,000, having a par value of \$0.001 per share (the “Preferred Stock”).

The Preferred Stock may be issued from time to time in one or more series. The Board of Directors of the Corporation is authorized to determine or alter the powers, preferences and rights and the qualifications, limitations or restrictions granted to or imposed upon any wholly unissued series of Preferred Stock, and within the limitations or restrictions stated in any resolution or resolutions of the Board of

Directors originally fixing the number of shares constituting any series, to increase or decrease (but not below the number of shares of any such series then outstanding) the number of shares of any such series subsequent to the issuance of shares of that series, to determine the designation of any series, and to fix the number of shares of any series. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

The Corporation shall from time to time in accordance with the laws of the State of Delaware increase the authorized amount of its Common Stock if at any time the number of shares of Common Stock remaining unissued and available for issuance shall not be sufficient to permit conversion of the Preferred Stock.

ARTICLE V

The Corporation is to have perpetual existence.

ARTICLE VI

Except as otherwise provided in this Restated Certificate of Incorporation, in furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, repeal, alter, amend or rescind any or all of the Bylaws of the Corporation.

ARTICLE VII

Section 1. The number of directors of the Corporation shall be fixed from time to time by a Bylaw or amendment thereof duly adopted by the Board of Directors or by the stockholders.

Section 2. Vacancies occurring on the Board of Directors for any reason may be filled by vote of a majority of the remaining members of the Board of Directors, although less than a quorum, at a meeting of the Board of Directors. A person so elected by the Board of Directors to fill a vacancy shall hold office until the next succeeding annual meeting of stockholders of the Corporation and until his or her successor shall have been duly elected and qualified.

ARTICLE VIII

Elections of directors at an annual or special meeting need not be by written ballot unless the Bylaws of the Corporation shall so provide.

ARTICLE IX

Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

ARTICLE X

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred on stockholders herein are granted subject to this reservation.

ARTICLE XI

To the fullest extent permitted by Delaware General Corporation Law, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. Neither any amendment nor repeal of this Article, nor the adoption of any provision of this Certificate of Incorporation inconsistent with this Article shall eliminate or reduce the effect of this Article in respect of any matter occurring, or any cause of action, suit or claim that, but for this Article would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

-3-

IN WITNESS WHEREOF, this Restated Certificate of Incorporation which only restates and integrates and does not further amend the provisions of the Restated Certificate of Incorporation of this Corporation as heretofore amended or supplemented, there being no discrepancies between those provisions and the provisions of this Restated Certificate of Incorporation, and it having been duly adopted by the Corporation's Board of Directors in accordance with Section 245 of the Delaware General Corporation Law has been executed by its duly authorized officer this 21 day of September, 2000

SUPERCONDUCTOR TECHNOLOGIES INC.

/s/ Martin S. McDermut

Name: Martin S. McDermut

Title: Vice President, Finance and Administration

-4-

CERTIFICATE OF AMENDMENT
OF
RESTATED CERTIFICATE OF INCORPORATION
OF
SUPERCONDUCTOR TECHNOLOGIES INC.
a Delaware corporation

Superconductor Technologies Inc., a corporation organized and existing under the laws of the State of Delaware (the “**Company**”), hereby certifies as follows:

1. That the Restated Certificate of Incorporation of the Company is hereby amended to add Article XII which reads in its entirety as follows:

“ARTICLE XII

No action required to be taken or which may be taken at any annual or special meeting of stockholders of the Company may be taken without a meeting, and the power of stockholders to consent in writing, without a meeting, to the taking of any action is specifically denied.”

2. That the foregoing amendment has been duly adopted in accordance with the provisions of Section 242 of the Delaware General Corporation Law, by approval of the Board of Directors of the Company at its meeting on February 8, 2001 and by the affirmative vote of the holders of at least a majority of the outstanding Common Stock of the Company entitled to vote thereon at the annual meeting of stockholders on May 17, 2001. There is no other class of stock entitled to vote on this amendment.

IN WITNESS WHEREOF, the Company has caused this Certificate of Amendment of Restated Certificate of Incorporation to be duly executed by its authorized officer this 17th day of May, 2001.

Superconductor Technologies Inc.

By: /s/ Martin S. McDermut

Martin S. McDermut
Vice President, Chief Financial Officer and
Secretary

010517 Certificate of Amendment

CERTIFICATE OF AMENDMENT
OF
RESTATED CERTIFICATE OF INCORPORATION
OF
SUPERCONDUCTOR TECHNOLOGIES INC.
a Delaware corporation

Superconductor Technologies Inc. a corporation organized and existing under the laws of the State of Delaware (the “**Company**”), hereby certifies as follows:

1. That the second sentence of the first paragraph of Section 1 of Article IV of the Restated certificate of Incorporation of the Company is hereby amended and restated in its entirety as follows:

“The total number of shares of Common Stock which the Corporation shall have authority to issue is 125,000,000 shares, having a par value of \$0.001 per share (the “Common Stock”), and the total number of shares of Preferred Stock this Corporation shall have authority to issue is 2,000,000 shares, having a par value of \$0.001 per share (the “Preferred Stock”).”

2. That the foregoing amendment has been duly adopted in accordance with the provisions of Section 242 of the Delaware General Corporation Law by approval of the Board of Directors of the Company at its meeting on November 6, 2002, and by the affirmative vote of the holders of at least a majority of the outstanding Common Stock of the Company entitled to vote thereon at the meeting of stockholders on December 17, 2002. There are no other classes of stock outstanding entitled to vote on this amendment.

IN WITNESS WHEREOF, the Company has caused this Certificate of Amendment of Restated Certificate of Incorporation to be duly executed by its authorized officer this 17th day of December, 2002.

Superconductor Technologies Inc.

By: /s/ Martin S. McDermut
Martin S. McDermut, Senior Vice President,
Chief Financial Officer and Secretary

021217 Certificate of Amendment

CERTIFICATE OF AMENDMENT
OF
RESTATED CERTIFICATE OF INCORPORATION
OF
SUPERCONDUCTOR TECHNOLOGIES INC.
a Delaware corporation

Superconductor Technologies Inc., a corporation organized and existing under the laws of the State of Delaware (the “**Company**”), hereby certifies as follows:

1. That the second sentence of the first paragraph of Section 1 of Article IV of the Restated Certificate of Incorporation of the Company is hereby amended and restated in its entirety as follows:

“The total number of shares of Common Stock which the Corporation shall have authority to issue is 250,000,000 shares, having a par value of \$0.001 per share (the “Common Stock”), and the total number of shares of Preferred Stock this Corporation shall have authority to issue is 2,000,000 shares, having a par value of \$0.001 per share (the “Preferred Stock”).”

2. That the foregoing amendment has been duly adopted in accordance with the provisions of Section 242 of the Delaware General Corporation Law by approval of the Board of Directors of the Company at its meeting on March 18, 2005, and by the affirmative vote of the holders of at least a majority of the outstanding Common Stock of the Company entitled to vote thereon at the meeting of stockholders on May 25, 2005. There are no other classes of stock outstanding entitled to vote on this amendment.

IN WITNESS WHEREOF, the Company has caused this Certificate of Amendment of Restated Certificate of Incorporation to be duly executed by its authorized officer this 31st day of May 2005.

Superconductor Technologies Inc.

By: /s/ Martin S. McDermut
Martin S. McDermut, Senior Vice President,
Chief Financial Officer and Secretary

State of Delaware
Secretary of State
Division of Corporations
Delivered 06:45 PM 06/02/2005
FILED 06:35 PM 06/02/2005
SRV 050464069 — 2125868 FILE

State of Delaware
Secretary of State
Division of Corporations
Delivered 11:31 AM 03/01/2006
FILED 11:31 AM 03/01/2006
SRV 060201352 — 2125868 FILE

CERTIFICATE OF AMENDMENT
OF
RESTATED CERTIFICATE OF INCORPORATION
OF
SUPERCONDUCTOR TECHNOLOGIES INC.
a Delaware corporation

Superconductor Technologies Inc., a corporation organized and existing under the laws of the State of Delaware (the “**Company**”), hereby certifies as follows:

1. That Article IV of the Restated Certificate of Incorporation of the Company is hereby amended to add Section 2 as follows:

“Section 2. Effective as of the close of business on March 10, 2006, each ten (10) shares of the issued and outstanding shares of Common Stock of this corporation shall thereby and thereupon automatically be combined into one (1) validly issued, fully paid and nonassessable share of Common Stock of this corporation (the “Reverse Stock Split”). No scrip or fractional shares will be issued by reason of the Reverse Stock Split. In lieu thereof, cash shall be distributed to each stockholder of the Company who would otherwise have been entitled to receipt of a fractional share and that the amount of cash to be distributed shall be based upon the closing price of a share of Common Stock on the Nasdaq Capital Market on the effective date of this Certificate of Amendment.”

2. That the foregoing amendment has been duly adopted in accordance with the provisions of Section 242 of the Delaware General Corporation Law by approval of the Board of Directors of the Company at its meeting on February 28, 2006, and by the affirmative vote of the holders of at least a majority of the outstanding Common Stock of the Company entitled to vote thereon at the meeting of stockholders on May 25, 2005. There are no other classes of stock outstanding entitled to vote on this amendment.

IN WITNESS WHEREOF, the Company has caused this Certificate of Amendment of Restated Certificate of Incorporation to be duly executed by its authorized officer this 28th day of February, 2006.

Superconductor Technologies Inc.

By: /s/ Martin S. McDermut
Martin S. McDermut, Senior Vice President,
Chief Financial Officer and Secretary

**AMENDED AND RESTATED BYLAWS
OF
SUPERCONDUCTOR TECHNOLOGIES INC.
a Delaware corporation**

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AMENDED AND RESTATED BYLAWS
of
SUPERCONDUCTOR TECHNOLOGIES INC.

a Delaware corporation
(hereinafter called the "Corporation")

ARTICLE 1.
CORPORATE OFFICES

1.1 **REGISTERED OFFICE.** The registered office of the corporation shall be in the City of Wilmington, County of New Castle, State of Delaware. The name of the registered agent of the corporation at such location is The Corporation Trust Company.

1.2 **OTHER OFFICES.** The board of directors may at any time establish other offices at anyplace or places where the corporation is qualified to do business.

ARTICLE 2.
MEETINGS OF STOCKHOLDERS

2.1 **PLACE OF MEETINGS.** Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the registered office of the corporation.

2.2 **ANNUAL MEETING.** The annual meeting of stockholders shall be held each year on a date and at a time designated by the board of directors. At the meeting, directors shall be elected and any other proper business may be transacted.

2.3 **SPECIAL MEETING.** A special meeting of the stockholders may be called at any time by the board of directors, the chairman of the board, the president, the chief executive officer or one or more stockholders holding shares in the aggregate entitled to cast not less than ten percent of the votes at that meeting (the "10% Stockholders"); provided that, notwithstanding the above and any provision contained in these bylaws to the contrary, effective upon such time as (i) shares of capital stock of the corporation are designated as qualified for trading as National Market System securities on the National Association of Securities Dealers, Inc. Automated Quotation System (or any successor national market system), and (ii) the corporation has at least 800 holders of shares of its capital stock, the 10% Stockholders shall no longer be entitled to call such meeting. If a special meeting is called by any person or persons other than the board of directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the board, the president, chief executive officer or the secretary of the corporation. No business may be transacted at such special meeting otherwise than specified in such notice. The officer receiving the request shall cause notice to be promptly given to the stockholders entitled to vote, in accordance with the provisions of Sections 2.4 and 2.5, that a meeting will be held at the time requested by the person or persons who called the meeting, not less than 35 nor more than 60 days after the receipt of the request. If the notice is not given within 20 days after the receipt of the request, the person or persons requesting the meeting may give the notice. Nothing contained in this paragraph of this Section 2.3 shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the board of directors may be held.

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2.4 NOTICE OF STOCKHOLDERS' MEETINGS. All notices of meetings with stockholders shall be in writing and shall be sent or otherwise given in accordance with Section 2.6 of these bylaws not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting. The notice shall specify the place, date, and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

2.5 ADVANCE NOTICE OF STOCKHOLDER NOMINEES AND STOCKHOLDER BUSINESS. To be properly brought before an annual meeting or special meeting, nominations for the election of director or other business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (b) otherwise properly brought before the meeting by or at the direction of the board of directors, or (c) otherwise properly brought before the meeting by a stockholder. For such nominations or other business to be considered properly brought before the meeting by a stockholder, such stockholder must have given timely notice and in proper form of his intent to bring such business before such meeting. To be timely, such stockholder's notice must be delivered to or mailed and received by the secretary of the corporation not less than 90 days prior to the meeting; provided, however, that in the event that less than 100 days notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. To be in proper form, a stockholder's notice to the secretary shall set forth: (i) the name and address of the stockholder who intends to make the nominations, propose the business, and, as the case may be, the name and address of the person or persons to be nominated or the nature of the business to be proposed; (ii) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and, if applicable, intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice or introduce the business specified in the notice; (iii) if applicable, a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (iv) such other information regarding such nominee or each matter of business to be proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the nominee been nominated, or intended to be nominated, or the matter been proposed, or intended to be proposed by the board of directors; and (v) if applicable, the consent of each nominee to serve as director of the corporation if so elected. The chairman of the meeting may refuse to acknowledge the nomination of any person or the proposal of any business not made in compliance with the foregoing procedure.

2.6 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE. Written notice of any meeting of stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the corporation. An affidavit of the secretary or an assistant secretary or of the transfer agent of the corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

2.7 QUORUM. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stock holders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation. If, however, such quorum is not present or represented at any meeting of the stockholders, then either (i) the chairman of the meeting, or (ii) the stockholders entitled to vote thereat, present in person or represented by proxy, shall

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have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. At such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally noticed. When a quorum is present or represented at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, be express provisions of the statutes or of the certificate of incorporation, a different vote is required, in which case such express provisions shall govern and control the decision of the question.

2.8 ADJOURNED MEETING; NOTICE. When a meeting is adjourned to another time or place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.9 VOTING. The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Sections 2.12 and 2.14 of these bylaws, subject to the provisions of Sections 217 and 218 of the General Corporation Law of Delaware (relating to voting rights of fiduciaries, pledgors and joint owners of stock and to voting trusts and other voting agreements).

2.10 WAIVER OF NOTICE. Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

2.11 STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING. Unless otherwise provided in the certificate of incorporation, any action required by this chapter to be taken at any annual or special meeting of stockholders of a corporation, or any action that may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice, and without a vote if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing. If the action which is consented to is such as would have required the filing of a certificate under any section of the General Corporation Law of Delaware if such action had been voted on by stockholders at a meeting thereof, then the certificate filed under such section shall state, in lieu of any statement required by such section concerning any vote of stockholders, that written notice and written consent have been given as provided in Section 228 of the General Corporation Law of Delaware. Notwithstanding the foregoing, effective upon the closing of the corporation's initial public offering of securities pursuant to a registration statement file under the Securities Act of 1933,

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as amended, the stockholders of the corporation may not take action by written consent without a meeting but must take any such actions at a duly called annual or special meeting.

2.12 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING; GIVING CONSENTS. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. If the board of directors does not so fix a record date, the fixing of such record date shall be governed by the provisions of Section 213 of the General Corporation Law of Delaware. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

2.13 PROXIES. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by a written proxy, signed by the stockholder and filed with the secretary of the corporation, but no such proxy shall be voted or acted upon after 3 years from its date, unless the proxy provides for a longer period. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or otherwise) by the stockholder or the stockholder's attorney-in-fact. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212(c) of the General Corporation Law of Delaware.

2.14 LIST OF STOCKHOLDERS ENTITLED TO VOTE. The officer who has charge of the stock ledger of a corporation shall prepare and make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The stock ledger shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. The stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list of stockholders or the books of the corporation, or to vote in person or by proxy at any meeting of stockholders and of the number of shares held by each such stockholder.

2.15 CONDUCT OF BUSINESS. Meetings of stockholders shall be presided over by the chairman of the board, if any, or in his absence by the president, or in his absence by a vice president, or in the absence of the foregoing persons by a chairman designated by the board of directors, or in the absence of such designation by a chairman chosen at the meeting. The secretary shall act as secretary of the meeting, but absence the chairman of the meeting may appoint any person to act as secretary of the meeting. The chairman of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such matters as the regulation of the manner of voting and conduct of business.

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ARTICLE 3. DIRECTORS

3.1 POWERS. Subject to the provisions of the General Corporation Law of Delaware and any limitations in the certificate of incorporation or these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

3.2 NUMBER.

3.2.1 The Board of Directors shall consist of six (6) members. Such set number of directors may be changed from time to time by resolution of the Board of Directors, except as otherwise provided by law or the Certificate of Incorporation. Any director may resign at any time upon written notice to the Corporation. Directors need not be stockholders.

3.2.2 Subject to the last two sentences of this subsection, the Board of Directors shall be divided into three classes, as nearly equal in numbers as the then total number of directors constituting the entire Board of Directors permits with the term of office of one class expiring each year. Whenever this subsection comes into effect, directors of the first class shall be elected to hold office for a term expiring at the next succeeding annual meeting, directors of the second class shall be elected to hold office for a term expiring at the second succeeding annual meeting and directors of the third class shall be elected to hold office for a term expiring at the third succeeding annual meeting. The directors shall be assigned to their respective classes by resolution of the Board of Directors at the time of the effectiveness of this subsection. At each subsequent annual meeting of stockholders, the successors to the class of directors whose term shall then expire shall be elected to hold office for a term expiring at the third succeeding annual meeting. In the event that the foregoing provisions of this subsection shall conflict with Section 301.5 of the California General Corporation Law ("CGCL") at a time when such Section is legally applicable to this Corporation as a result of Section 2115 of the CGCL (or any successor provisions thereto), the terms of any directors then in office shall be reduced by the minimum extent necessary to eliminate such conflict. Thereafter, all directors shall be elected at each annual meeting of stockholders until the foregoing provisions of this subsection relating to the classification of directors can be reinstated, at which time the terms of the directors shall expire as provided in the second through fourth sentences of this subsection.

3.3 ELECTION, QUALIFICATION AND TERM OF OFFICE OF DIRECTORS. Except as provided in Section 3.4 of these bylaws, at each annual meeting of stockholders, directors of the corporation shall be elected to hold office until the expiration of the term for which they are elected, and until their successors have been duly elected and qualified; except that if any such election shall not be so held, such election shall take place at a stockholders' meeting called and held in accordance with the Delaware General Corporation Law. Directors need not be stockholders unless so required by the certificate of incorporation or these bylaws, wherein other qualifications for directors may be prescribed. Elections of directors need not be by written ballot.

3.4 RESIGNATION AND VACANCIES. Any director may resign at any time upon written notice to the corporation. Stockholders may remove directors with or without cause. Any vacancy occurring in the board of directors with or without cause may be filled by a majority of the remaining members of the board of directors, although such majority is less than a quorum, or by a plurality of the votes cast at a meeting of stockholders, and each director so elected shall hold office until the expiration of the term of office of the director whom he has replaced. Unless otherwise provided in the certificate of incorporation or these bylaws:

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3.4.1 Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director or by the stockholders entitled to vote at any Annual or Special Meeting held in accordance with Article II, and the directors so chosen shall hold office until the next election of the class for which such directors have been chosen and until their successors are duly elected and qualified, or until their earlier resignation or removal.

3.4.2 Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected. If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the General Corporation Law of Delaware. If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole board (as constituted immediately prior to any such increase), then the Court of Chancery may, upon application of any stockholder or stockholders holding at least 10% of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the General Corporation Law of Delaware as far as applicable.

3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE. The board of directors of the corporation may hold meetings, both regular and special, either within or outside the State of Delaware. Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.6 FIRST MEETINGS. The first meeting of each newly elected board of directors shall be held at such time and place as shall be fixed by the vote of the stockholders at the annual meeting and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a quorum shall be present. In the event of the failure of the stockholders to fix the time or place of such first meeting of the newly elected board of directors, or in the event such meeting is not held at the time and place so fixed by the stockholders, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the board of directors, or as shall be specified in a written waiver signed by all of the directors.

3.7 REGULAR MEETINGS. Regular meetings of the board of directors may be held without notice at such time and at such place as shall from time to time be determined by the board.

3.8 SPECIAL MEETINGS; NOTICE. Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board, the president, any vice president, the secretary or any two directors. Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class

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mail or telegram, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. If the notice is mailed, it shall be deposited in the United States mail at least 4 days before the time of the holding of the meeting. If the notice is delivered personally or by telephone or by telegram, it shall be delivered personally or by telephone or to the telegraph company at least 48 hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose of the place of the meeting, if the meeting is to be held at the principal executive office of the corporation.

3.9 QUORUM. At all meetings of the board of directors, a majority of the authorized number of directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation.

3.10 WAIVER OF NOTICE. Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors, or members of a committee of directors, need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

3.11 ADJOURNED MEETING; NOTICE. If a quorum is not present at any meeting of the board of directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

3.12 CONDUCT OF BUSINESS. Meetings of the board of directors shall be presided over by the chairman of the board, if any, or in his absence by the chief executive officer, or in their absence by a chairman chosen at the meeting. The secretary shall act as secretary of the meeting, but in his absence the chairman of the meeting may appoint any person to act as secretary of the meeting. The chairman of any meeting shall determine the order of business and the procedures at the meeting.

3.13 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING. Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the board of directors, or of any committee thereof, may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the board or committee.

3.14 FEES AND COMPENSATION OF DIRECTORS. Unless otherwise restricted by the certificate of incorporation or these bylaws, the board of directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the board of directors and may be paid a fixed sum for attendance at each meeting of the board of directors or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

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3.15 APPROVAL OF LOANS TO OFFICERS. The corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiary, including any officer or employee who is a director of the corporation or its subsidiary, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured, or secured in such manner as the board of directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing in this section contained shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

3.16 REMOVAL OF DIRECTORS. Unless otherwise restricted by statute, by the certificate of incorporation or by these bylaws, any director or the entire board of directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors. If at any time a class or series of shares is entitled to elect one or more directors, the provisions of this Article 3.16 shall apply to the vote of that class or series and not to the vote of the outstanding shares as a whole. No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office.

ARTICLE 4. COMMITTEES

4.1 COMMITTEES OF DIRECTORS. The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, with each committee to consist of one or more of the directors of the corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors or in the bylaws of the corporation, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to the following matter: (i) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the Delaware General Corporation Law to be submitted to stockholders for approval or (ii) adopting, amending or repealing any bylaw of the corporation.

4.2 COMMITTEE MINUTES. Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

4.3 MEETINGS AND ACTION OF COMMITTEES. Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Section 3.5 (place of meetings and meetings by telephone), Section 3.7 (regular meetings), Section 3.8 (special meetings and notice), Section 3.9 (quorum), Section 3.10 (waiver of notice), Section 3.11 (adjournment and notice of adjournment), Section 3.12 (conduct of business) and 3.13 (action without a meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, that the time of regular meetings of committees may also be called by resolution of the board of directors and that notice of special meetings of

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committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

ARTICLE 5. OFFICERS

5.1 OFFICERS. The officers of the corporation shall be a chief executive officer, one or more vice presidents, a secretary and a chief financial officer. The corporation may also have, at the discretion of the board of directors, a chairman of the board, a president, a chief operating officer, one or more executive, senior or assistant vice presidents, assistant secretaries and any such other officers as may be appointed in accordance with the provisions of Section 5.2 of these bylaws. Any number of offices may be held by the same person.

5.2 ELECTION OF OFFICERS. Except as otherwise provided in this Section 5.2, the officers of the corporation shall be chosen by the board of directors, subject to the rights, if any, of an officer under any contract of employment. The board of directors may appoint, or empower an officer to appoint, such officers and agents of the business as the corporation may require (whether or not such officer or agent is described in this Article V), each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the board of directors may from time to time determine. Any vacancy occurring in any office of the corporation shall be filled by the board of directors or may be filled by the officer, if any, who appointed such officer.

5.3 REMOVAL AND RESIGNATION OF OFFICERS. Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by an affirmative vote of the majority of the board of directors at any regular or special meeting of the board or, except in the case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors or, in the case of an officer appointed by another officer, by such other officer. Any officer may resign, at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

5.4 CHAIRMAN OF THE BOARD. The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise and perform such other powers and duties as may from time to time be assigned to him by the board of directors or as may be prescribed by these bylaws. If there is no chief executive officer, then the chairman of the board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.5 of these bylaws.

5.5 CHIEF EXECUTIVE OFFICER. The chief executive officer of the corporation shall, subject to the control of the board of directors, have general supervision, direction and control of the business and the officers of the corporation. He or she shall preside at all meetings of the stockholders and, in the absence or nonexistence of a chairman of the board at all meetings of the board of directors. He or she shall have the general powers and duties of management usually vested in the chief executive officer of a corporation, including general supervision, direction and control of the business and supervision of other officers of the corporation, and shall have such other powers and duties as may be prescribed by the board of directors or these bylaws. The chief executive officer shall, without limitation, have the authority to execute bonds, mortgages and other contracts requiring a seal, under the seal of the corporation, except where required or permitted by law to be otherwise signed and executed

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and except where the signing and execution thereof shall be expressly delegated by the board of directors to some other officer or agent of the corporation.

5.6 PRESIDENT. Subject to such supervisory powers as may be given by these bylaws or the board of directors to the chairman of the board or the chief executive officer, if there be such officers, the president shall have general supervision, direction and control of the business and supervision of other officers of the corporation, and shall have such other powers and duties as may be prescribed by the board of directors or these bylaws. In the event a chief executive officer shall not be appointed, the president shall have the duties of such office.

5.7 VICE PRESIDENT. In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the chief executive officer and when so acting shall have all the powers of, and be subject to all the restrictions upon, the chief executive officer. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these bylaws, the chief executive officer or the chairman of the board.

5.8 SECRETARY. The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors, and stockholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof. The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation. The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required to be given by law or by these bylaws. He shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by these bylaws.

5.9 CHIEF FINANCIAL OFFICER. The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and shares. The books of account shall at all reasonable times be open to inspection by any director. The chief financial officer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the chief executive officer and directors, whenever they request it, an account of all of his transactions as treasurer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or these bylaws.

5.10 ASSISTANT SECRETARY. The assistant secretary, or, if there is more than one, the assistant secretaries in the order determined by the stockholders or board of directors (or if there be no such determination, then in the order of their election) shall, in the absence of the secretary or in the event of his or her inability or refusal to act, perform the duties and

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exercise the powers of the secretary and shall perform such other duties and have such other powers as the board of directors or the stockholders may from time to time prescribe.

5.11 **AUTHORITY AND DUTIES OF OFFICERS.** In addition to the foregoing authority and duties, all officers of the corporation shall respectively have such authority and perform such duties in the management of business of the corporation as may be designated from time to time by the board of directors or the stockholders.

ARTICLE 6. INDEMNITY

6.1 **DIRECTORS' LIABILITY.** A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended. Any repeal or modification of this provision shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

6.2 **RIGHT TO INDEMNIFICATION.** Each person who was or is made a party to or is threatened to be made a party to or is involuntarily involved in any claim, action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he or she is or was a director or officer of the Corporation, or is or was serving (during his or her tenure as director and/or officer) at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, whether the basis of such Proceeding is an alleged action or inaction in an official capacity as a director or officer or in any other capacity while serving as a director or officer, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Delaware General Corporation Law (or other applicable law), as the same exists or may hereafter be amended (but in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification than such law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection with such Proceeding. Such director or officer shall have the right to be paid by the Corporation for expenses incurred in defending any such Proceeding in advance of its final disposition; provided, however, that, if the Delaware General Corporation Law (or other applicable law) requires, the payment of such expenses in advance of the final disposition of any such Proceeding shall be made only upon receipt by the Corporation of an undertaking by or on behalf of such director or officer to repay all amounts so advanced if it should be determined ultimately by final judicial decision from which there is no further right to appeal that he or she is not entitled to be indemnified under this Article or otherwise.

6.3 **RIGHT OF CLAIMANT TO BRING SUIT.** If a claim under Section 6.2 of this Article is not paid in full by the Corporation within ninety (90) days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim, together with interest thereon, and, if successful in whole or in part, the claimant shall also be entitled to be paid the expense of

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prosecuting such claim, including reasonable attorneys' fees incurred in connection therewith. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any Proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the Delaware General Corporation Law (or other applicable law) for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (or of its full Board of Directors, its directors who are not parties to the Proceeding with respect to which indemnification is claimed, its stockholders, or independent legal counsel) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the Delaware General Corporation Law (or other applicable law), nor an actual determination by any such person or persons that such claimant has not met such applicable standard of conduct, shall be a defense to such action or create a presumption that the claimant has not met the applicable standard of conduct.

6.4 NON-EXCLUSIVITY OF RIGHTS. The rights conferred by this Article VI shall not be exclusive of any other right which any director, officer, representative, employee or other agent may have or hereafter acquire under the Delaware General Corporation Law or any other statute, or any provision contained in the Corporation's Certificate of Incorporation or Bylaws, or any agreement, or pursuant to a vote of stockholders or disinterested directors, or otherwise.

6.5 INDEMNIFICATION AGREEMENTS. The Corporation may enter into contracts providing indemnification to the fullest extent permitted by law.

6.6 INSURANCE. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of applicable law.

6.7 FUNDING OBLIGATIONS. The Corporation may create a trust fund, grant a security interest and/or use other means (including, without limitation, letters of credit, surety bonds and/or other similar arrangements), to ensure the payment of insurance premiums, or other such amounts as may become necessary to effect indemnification as provided in this Article VI or elsewhere.

6.8 INDEMNIFICATION OF EMPLOYEES AND AGENTS OF THE CORPORATION. The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, including the right to be paid by the Corporation the expenses incurred in defending any Proceeding in advance of its final disposition, to any employee or agent of the Corporation to the fullest extent of the provisions of this Article VI or otherwise with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

6.9 AMENDMENT. Any repeal or modification of this Article VI shall not change the rights of an officer or director to indemnification with respect to any action or omission occurring prior to such repeal or modification.

ARTICLE 7. RECORDS AND REPORTS

7.1 MAINTENANCE AND INSPECTION OF RECORDS. The corporation shall, either at its principal executive office or at such place or places as designated by the board of

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directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these bylaws as amended to date, accounting books, and other records. Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

7.2 INSPECTION BY DIRECTORS. Any directors shall have the right to examine the corporation's stock ledger, a list of its stockholders and its other books and records for a purpose reasonably related to his position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

7.3 REPRESENTATION OF SHARES OF OTHER CORPORATIONS. The chairman of the board, the chief executive officer, any vice president, the chief financial officer, the secretary or assistant secretary of this corporation, or any other person authorized by the board of directors or the chief executive officer or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

ARTICLE 8. GENERAL MATTERS

8.1 CHECKS. From time to time, the board of directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidence of indebtedness that are issued in the name of or payable to the corporation, and only the person so authorized shall sign or endorse those instruments.

8.2 EXECUTION OF CORPORATE CONTRACTS AND INSTRUMENTS. The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

8.3 STOCK CERTIFICATES; PARTLY PAID SHARES. The shares of a corporation shall be represented by certificates, provided that the board of directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a

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certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by the chairman or vice-chairman of the board of directors, or the president or vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has caused to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue. The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

8.4 SPECIAL DESIGNATION ON CERTIFICATES. If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to such stockholder who so request the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stocks or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

8.5 LOST CERTIFICATES. Except as provided in this Section 8.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and canceled at the same time. The corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or his legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

8.6 CONSTRUCTION, DEFINITIONS. Unless the content requires otherwise, the general provisions, rules of construction, and definitions in the Delaware General Corporation Law shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

8.7 DIVIDENDS. The directors of the corporation, subject to any restrictions contained in the certificate of incorporation, may declare and pay dividends upon the shares of its capital stock pursuant to the General Corporation Law of Delaware. Dividends may be paid in cash, in property, or in shares of the corporation's capital stock. The directors of the

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corporation may set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve. Such purposes shall include but not be limited to equalizing dividends, repairing or maintaining any property of the corporation, and meeting contingencies.

8.8 FISCAL YEAR. The fiscal year of the corporation shall be fixed by resolution of the board of directors and may be changed by the board of directors.

8.9 SEAL. The corporation may adopt a corporate seal, which may be altered at pleasure, and may use the same by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

8.10 TRANSFER OF STOCK. Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction in its books.

8.11 STOCK TRANSFER AGREEMENTS. The corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such stockholders in any manner not prohibited by the General Corporation Law of Delaware.

8.12 REGISTERED STOCKHOLDERS. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner, shall be entitled to hold liable for calls and assessments the person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

8.13 RESTRICTIONS ON STOCK OPTIONS. The Corporation, without the approval of the owners of a majority of the Common Stock, shall not grant to any officer of the Corporation any stock options at less than the closing market price on the date of grant or reduce the price of any options at less than the closing market price on the date of grant or reduce the price of any options which either were granted as a non-qualified stock option grant to an incoming employee or vender or were granted to any officer under any of the Corporation's existing or future stock options plans, provided, however, that the foregoing shall not preclude the Corporation from issuing new, lower priced options issued from a stock option plan to persons holding higher priced options from such plan or any other plan, provided, however, that if such new lower priced options are granted in exchange for such higher priced options, the shares covered by such higher priced options shall be canceled or surrendered and not available for re-grant under such stock option plan.

ARTICLE 9. AMENDMENTS

The original or other bylaws of the corporation may be adopted, amended or repealed by the stockholders entitled to vote; provided, however, that the corporation may, in its certificate of incorporation, confer the power to adopt, amend or repeal bylaws upon the directors. The fact that such power has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to adopt, or repeal bylaws.

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**ARTICLE 10.
DISSOLUTION**

If it should be deemed advisable in the judgment of the board of directors of the corporation that the corporation should be dissolved, the board, after the adoption of a resolution to that effect by a majority of the whole board at any meeting called for that purpose, shall cause notice to be mailed to each stockholder entitled to vote thereon of the adoption of the resolution and of a meeting of stockholders to take action upon the resolution. At the meeting a vote shall be taken for and against the proposed dissolution. If a majority of the outstanding stock of the corporation entitled to vote thereon votes for the proposed dissolution, then a certificate stating that the dissolution has been authorized in accordance with the provisions of Section 275 of the General Corporation Law of Delaware and setting forth the names and residences of the directors and officers shall be executed, acknowledged, and filed and shall become effective in accordance with Section 103 of the General Corporation Law of Delaware. Upon such certificate's becoming effective in accordance with Section 103 of the General Corporation Law of Delaware, the corporation shall be dissolved.

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CERTIFICATE OF ADOPTION OF AMENDED AND RESTATED BYLAWS

THIS IS TO CERTIFY:

That I am the duly elected, qualified and acting Secretary of Superconductor Technologies Inc., a Delaware corporation, and that the foregoing amended and restated bylaws were adopted as the Bylaws of said corporation as of the 25th day of May, 2005, by the board of directors of said corporation.

Dated as of this 25th day of May, 2005.

/s/ Martin S. McDermut

Martin S. McDermut, Secretary

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**THIRD AMENDMENT
TO
LOAN AND SECURITY AGREEMENT**

THIS **THIRD AMENDMENT** to Loan and Security Agreement (this “Amendment”) is entered into this 16th day of June, 2006 by and between Silicon Valley Bank (“Bank”) and Superconductor Technologies, Inc., a Delaware corporation (“Borrower”) whose address is 460 Ward Drive, Suite F, Santa Barbara, CA 93111.

RECITALS

A. Bank and Borrower have entered into that certain Accounts Receivable Purchase Agreement dated as of March 28, 2003, as amended by that certain Amendment to Purchase Agreement by and between Bank and Borrower dated as of April 28, 2004, and that certain Accounts Receivable Purchase Modification Agreement (as the same may from time to time be further amended, modified, supplemented or restated, the “Loan Agreement”).

B. Bank has extended credit to Borrower for the purposes permitted in the Loan Agreement.

C. Borrower has requested that Bank amend the Loan Agreement to extend the maturity date

D. Bank has agreed to so amend certain provisions of the Loan Agreement, but only to the extent, in accordance with the terms, subject to the conditions and in reliance upon the representations and warranties set forth below.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

1. Definitions. Capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Loan Agreement.

2. Amendments to Loan Agreement.

2.1 Section 17 (Term and Termination). The first sentence of Section 17 is amended in its entirety and replaced with the following:

“The term of this Agreement shall be through June 15, 2007 unless

terminated in writing by Buyer and Seller.”

3. Limitation of Amendments.

3.1 The amendments set forth in **Section 2**, above, are effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (a) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (b) otherwise prejudice any right or remedy which Bank may now have or may have in the future under or in connection with any Loan Document.

3.2 This Amendment shall be construed in connection with and as part of the Loan Documents and all terms, conditions, representations, warranties, covenants and agreements set forth in the Loan Documents, except as herein amended, are hereby ratified and confirmed and shall remain in full force and effect.

4. Representations and Warranties. To induce Bank to enter into this Amendment, Borrower hereby represents and warrants to Bank as follows:

4.1 Immediately after giving effect to this Amendment (a) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date), and (b) no Event of Default has occurred and is continuing;

4.2 Borrower has the power and authority to execute and deliver this Amendment and to perform its obligations under the Loan Agreement, as amended by this Amendment;

4.3 The organizational documents of Borrower delivered to Bank on the March 28, 2003 remain true, accurate and complete and have not been amended, supplemented or restated and are and continue to be in full force and effect;

4.4 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, have been duly authorized;

4.5 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not and will not contravene (a) any law or regulation binding on or affecting Borrower, (b) any contractual restriction with a Person binding on Borrower, (c) any order, judgment or decree of any court or other governmental or public body or authority, or subdivision thereof, binding on Borrower, or (d) the organizational documents of Borrower;

4.6 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not require any order, consent, approval, license, authorization or

validation of, or filing, recording or registration with, or exemption by any governmental or public body or authority, or subdivision thereof, binding on either Borrower, except as already has been obtained or made; and

4.7 This Amendment has been duly executed and delivered by Borrower and is the binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights.

5. Integration. This Amendment and the Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties and negotiations between the parties about the subject matter of this Amendment and the Loan Documents merge into this Amendment and the Loan Document.

6. Counterparts. This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

7. Effectiveness. This Amendment shall be deemed effective upon (a) the due execution and delivery to Bank of this Amendment by each party hereto, (b) Borrower's payment of an amendment fee in an amount equal to \$25,000, (c) Bank's receipt of the Acknowledgment of Amendment and Reaffirmation of Guaranty substantially in the form attached hereto as Schedule 1, duly executed and delivered by each Guarantor.

[Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first written above.

BANK

Silicon Valley Bank

By: /s/ John Willard

Name: John Willard

Title: VP/SVB

BORROWER

Superconductor Technologies, Inc.

By: /s/ Jeffrey Quiram

Name: Jeffrey Quiram

Title: President and CEO

Schedule 1

**ACKNOWLEDGMENT OF AMENDMENT
AND REAFFIRMATION OF GUARANTY**

Section 1. Guarantor hereby acknowledges and confirms that it has reviewed and approved the terms and conditions of the Third Amendment to Loan and Security Agreement dated as of even date herewith (the "Amendment").

Section 2. Guarantor hereby consents to the Amendment and agrees that the Guaranty relating to the Obligations of Borrower under the Loan Agreement shall continue in full force and effect, shall be valid and enforceable and shall not be impaired or otherwise affected by the execution of the Amendment or any other document or instrument delivered in connection herewith.

Section 3. Guarantor represents and warrants that, after giving effect to the Amendment, all representations and warranties contained in the Guaranty are true, accurate and complete as if made the date hereof.

Dated as of June 15, 2006

GUARANTOR

Conductus, Inc.

By: /s/ Jeffrey Quiram

Name: Jeffrey Quiram

Title: President and CEO

**FOURTH AMENDMENT
TO
LOAN AND SECURITY AGREEMENT**

THIS **FOURTH AMENDMENT** to Loan and Security Agreement (this “Amendment”) is entered into this 18th day of June, 2007 by and between Silicon Valley Bank (“Bank”) and Superconductor Technologies, Inc., a Delaware corporation (“Borrower”) whose address is 460 Ward Drive, Suite F, Santa Barbara, CA 93111.

RECITALS

A. Bank and Borrower have entered into that certain Accounts Receivable Purchase Agreement dated as of March 28, 2003, as amended by that certain Amendment to Purchase Agreement by and between Bank and Borrower dated as of April 28, 2004, by that certain Accounts Receivable Purchase Modification Agreement and further amended by that certain Third Amendment to Loan and Security Agreement dated June 16, 2006 (as the same may from time to time be further amended, modified, supplemented or restated, the “Loan Agreement”).

B. Bank has extended credit to Borrower for the purposes permitted in the Loan Agreement.

C. Borrower has requested that Bank amend the Loan Agreement to extend the maturity date

D. Bank has agreed to so amend certain provisions of the Loan Agreement, but only to the extent, in accordance with the terms, subject to the conditions and in reliance upon the representations and warranties set forth below.

AGREEMENT

NOW, THEREFORE , in consideration of the foregoing recitals and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

1. Definitions. Capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Loan Agreement.

2. Amendments to Loan Agreement.

2.1 Section 17 (Term and Termination). The first sentence of Section 17 is amended in its entirety and replaced with the following:

“The term of this Agreement shall be through July 15, 2008 unless terminated in writing by Buyer and Seller.”

3. Limitation of Amendments.

3.1 The amendments set forth in **Section 2**, above, are effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (a) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (b) otherwise prejudice any right or remedy which Bank may now have or may have in the future under or in connection with any Loan Document.

3.2 This Amendment shall be construed in connection with and as part of the Loan Documents and all terms, conditions, representations, warranties, covenants and agreements set forth in the Loan Documents, except as herein amended, are hereby ratified and confirmed and shall remain in full force and effect.

4. Representations and Warranties. To induce Bank to enter into this Amendment, Borrower hereby represents and warrants to Bank as follows:

4.1 Immediately after giving effect to this Amendment (a) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date), and (b) no Event of Default has occurred and is continuing;

4.2 Borrower has the power and authority to execute and deliver this Amendment and to perform its obligations under the Loan Agreement, as amended by this Amendment;

4.3 The organizational documents of Borrower delivered to Bank on the March 28, 2003 remain true, accurate and complete and have not been amended, supplemented or restated and are and continue to be in full force and effect;

4.4 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, have been duly authorized;

4.5 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not and will not contravene (a) any law or regulation binding on or affecting Borrower, (b) any contractual restriction with a Person binding on Borrower, (c) any order, judgment or decree of any court or other governmental or public body or authority, or subdivision thereof, binding on Borrower, or (d) the organizational documents of Borrower;

4.6 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended

by this Amendment, do not require any order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by any governmental or public body or authority, or subdivision thereof, binding on either Borrower, except as already has been obtained or made; and

4.7 This Amendment has been duly executed and delivered by Borrower and is the binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights.

5. Integration. This Amendment and the Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties and negotiations between the parties about the subject matter of this Amendment and the Loan Documents merge into this Amendment and the Loan Document.

6. Counterparts. This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

7. Effectiveness. This Amendment shall be deemed effective upon (a) the due execution and delivery to Bank of this Amendment by each party hereto, (b) Borrower's payment of an amendment fee in an amount equal to \$27,083, (c) Bank's receipt of the Acknowledgment of Amendment and Reaffirmation of Guaranty substantially in the form attached hereto as Schedule 1, duly executed and delivered by each Guarantor.

[Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first written above.

BANK

Silicon Valley Bank

By: /s/ Ben Fargo

Name: Ben Fargo
Title: VP/Relationship Manager

BORROWER

Superconductor Technologies, Inc.

By: /s/ Jeffrey Quiram

Name: Jeffrey Quiram
Title: President and CEO

Schedule 1

**ACKNOWLEDGMENT OF AMENDMENT
AND REAFFIRMATION OF GUARANTY**

Section 1. Guarantor hereby acknowledges and confirms that it has reviewed and approved the terms and conditions of the Fourth Amendment to Loan and Security Agreement dated as of even date herewith (the "Amendment").

Section 2. Guarantor hereby consents to the Amendment and agrees that the Guaranty relating to the Obligations of Borrower under the Loan Agreement shall continue in full force and effect, shall be valid and enforceable and shall not be impaired or otherwise affected by the execution of the Amendment or any other document or instrument delivered in connection herewith.

Section 3. Guarantor represents and warrants that, after giving effect to the Amendment, all representations and warranties contained in the Guaranty are true, accurate and complete as if made the date hereof.

Dated as of June 18, 2007

GUARANTOR

Conductus, Inc.

By: /s/ Jeffrey Quiram

Name: Jeffrey Quiram

Title: President and CEO

**SEVENTH AMENDMENT
TO
LOAN AND SECURITY AGREEMENT**

THIS **SEVENTH AMENDMENT** to Loan and Security Agreement (this “Amendment”) is entered into this 31st day of July, 2009 by and between Silicon Valley Bank (“Bank”) and Superconductor Technologies, Inc., a Delaware corporation (“Borrower”) whose address is 460 Ward Drive, Suite F, Santa Barbara, CA 93111.

RECITALS

A. Bank and Borrower have entered into that certain Accounts Receivable Purchase Agreement dated as of March 28, 2004, as amended by that certain Amendment to Purchase Agreement by and between Bank and Borrower dated as of April 28, 2004, by that certain Accounts Receivable Purchase Modification Agreement by and between Bank and Borrower dated as of March 16, 2005, by that certain Third Amendment to Loan and Security Agreement by and between Bank and Borrower dated as of June 16, 2006, by that certain Fourth Amendment to Loan and Security Agreement by and between Bank and Borrower dated as of June 18, 2007, by that certain Fifth Amendment to Loan and Security Agreement by and between Bank and Borrower dated as of July 31, 2007 and by that certain Sixth Amendment to Loan and Security Agreement by and between Bank and Borrower dated as of July 31, 2008 (as the same may from time to time be further amended, modified, supplemented or restated, the “Loan Agreement”).

B. Bank has extended credit to Borrower for the purposes permitted in the Loan Agreement.

C. Borrower has requested that Bank amend the Loan Agreement to (i) extend the maturity date (ii) reduce the amount of the credit facility and (iii) make certain other revisions to the Loan Agreement as more fully set forth herein.

D. Bank has agreed to so amend certain provisions of the Loan Agreement, but only to the extent, in accordance with the terms, subject to the conditions and in reliance upon the representations and warranties set forth below.

AGREEMENT

NOW, THEREFORE , in consideration of the foregoing recitals and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

1. Definitions. Capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Loan Agreement.

2. Amendments to Loan Agreement.

2.1 Section 2.2 (Acceptance of Receivables). The final sentence of Section 2.2 is amended in its entirety and replaced with the following:

“Notwithstanding the foregoing, in no event shall the aggregate amount of all Purchased receivables outstanding at anytime exceed
Three Million Dollars (\$3,000,000).”

2.2 Section 17 (Term and Termination). The first sentence of Section 17 is amended in its entirety and replaced with the following:

“The term of this Agreement shall be through July 12, 2010 unless terminated in writing by Buyer and Seller.”

3. Limitation of Amendments.

3.1 The amendments set forth in **Section 2**, above, are effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (a) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (b) otherwise prejudice any right or remedy which Bank may now have or may have in the future under or in connection with any Loan Document.

3.2 This Amendment shall be construed in connection with and as part of the Loan Documents and all terms, conditions, representations, warranties, covenants and agreements set forth in the Loan Documents, except as herein amended, are hereby ratified and confirmed and shall remain in full force and effect.

4. Representations and Warranties. To induce Bank to enter into this Amendment, Borrower hereby represents and warrants to Bank as follows:

4.1 Immediately after giving effect to this Amendment (a) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date), and (b) no Event of Default has occurred and is continuing;

4.2 Borrower has the power and authority to execute and deliver this Amendment and to perform its obligations under the Loan Agreement, as amended by this Amendment;

4.3 The organizational documents of Borrower delivered to Bank on the March 28, 2003 remain true, accurate and complete and have not been amended, supplemented or restated and are and continue to be in full force and effect;

4.4 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, have been duly authorized;

4.5 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not and will not contravene (a) any law or regulation binding on or affecting Borrower, (b) any contractual restriction with a Person binding on Borrower, (c) any order, judgment or decree of any court or other governmental or public body or authority, or subdivision thereof, binding on Borrower, or (d) the organizational documents of Borrower;

4.6 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not require any order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by any governmental or public body or authority, or subdivision thereof, binding on either Borrower, except as already has been obtained or made; and

4.7 This Amendment has been duly executed and delivered by Borrower and is the binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights.

5. Counterparts. This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

6. Effectiveness. This Amendment shall be deemed effective upon (a) the due execution and delivery to Bank of this Amendment by each party hereto, (b) Borrower's payment of an amendment fee in an amount equal to \$15,000, (c) Bank's receipt of the Acknowledgment of Amendment and Reaffirmation of Guaranty substantially in the form attached hereto as Schedule 1, duly executed and delivered by each Guarantor.

[Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first written above.

BANK

Silicon Valley Bank

By: /s/ Ben Fargo
Name: Ben Fargo
Title: VP/Relationship Manager

BORROWER

Superconductor Technologies, Inc.

By: /s/ William Buchanan
Name: William Buchanan
Title: Controller

Schedule 1

**ACKNOWLEDGMENT OF AMENDMENT
AND REAFFIRMATION OF GUARANTY**

Section 1. Guarantor hereby acknowledges and confirms that it has reviewed and approved the terms and conditions of the Seventh Amendment to Loan and Security Agreement dated as of even date herewith (the "Amendment").

Section 2. Guarantor hereby consents to the Amendment and agrees that the Guaranty relating to the Obligations of Borrower under the Loan Agreement shall continue in full force and effect, shall be valid and enforceable and shall not be impaired or otherwise affected by the execution of the Amendment or any other document or instrument delivered in connection herewith.

Section 3. Guarantor represents and warrants that, after giving effect to the Amendment, all representations and warranties contained in the Guaranty are true, accurate and complete as if made the date hereof.

Dated as of July 31, 2009

GUARANTOR

Conductus, Inc.

By: /s/ William Buchanan

Name: William Buchanan

Title: Controller

SECOND AMENDMENT TO LEASE

This Second Amendment to Lease (this "Second Amendment") is made this 19th day of January, 2009 by and between 1200 ENTERPRISES LLC ("Lessor") and SUPERCONDUCTOR TECHNOLOGIES, INC. ("Lessee").

Recitals

A. Lessor and Lessee are parties to that certain Standard Industrial/Commercial Multi-Tenant Lease Net dated 1 June 2001 (the "Lease") for the premises commonly known as 460 Ward Drive, Suites A, B, D, F and approximately one-half of Suite E, Santa Barbara, California as more particularly described in the Lease (the "Premises").

B. Lessor and Lessee were parties to that certain Standard Industrial/Commercial Multi-Tenant Lease Net dated 22 January 2003 (the "Warehouse Lease") for the premises commonly known as 460 Ward Drive, Suite C, Santa Barbara, California as more particularly described in the Warehouse Lease (the "Warehouse Premises"). The Warehouse Lease was amended by a First Amendment to Lease dated 22 March 2004 (the "Warehouse Amendment"). On or about 1 October 2007, the Lease was amended by a First Amendment to Lease (the "First Amendment") which incorporated the Warehouse Premises into the Premises, the Warehouse Lease and the Warehouse Amendment were terminated, and the rent provisions of the Lease were amended accordingly.

C. Lessor and Lessee have agreed that Lessee has exercised its first option to extend the Lease pursuant to paragraph 50.

D. Lessor and Lessee have agreed to a fair market rent which will be effective with this Second Amendment and to modify the provisions related to annual adjustment of rent.

E. Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Lease.

NOW, THEREFORE, in consideration of the mutual covenants of the respective parties thereto, it is agreed as follows:

1. Amendment of Lease. The Lease is hereby amended as follows:

1.1 The Expiration Date in Paragraph 1.3 is hereby amended to be "30 November 2016."

1.2 Paragraph 1.5 is hereby amended to read as follows: "**Base Rent:** Ninety One Thousand, Six Hundred & Ninety Nine and 40/100 Dollars (\$91,699.40) per month ("Base Rent"), payable on the first (1st) day of each month commencing 1 February 2009 (also see Paragraph 4). The Base Rent shall be subject to adjustment on an annual basis on 1 December 2009 and on the same day of every year thereafter (the "Adjustment Date"). The adjustment of the Base Rent shall be calculated as follows:

For the Adjustment Date on 1 December 2009 and 2010:

(1) The rent in effect as of the Adjustment Date in each year shall be increased by the greater of (A) zero percent (0.0%); or (B) the percentage increase, if any, in the Consumer Price Index (All Items for All Urban Consumers 1982-84 = 100 Base), of the United States Department of Labor, Bureau of Labor Statistics for the Los Angeles-Anaheim-Riverside,

California area for the twelve-month period ending on the immediately preceding September 30th (the "Index"). The calculation pursuant to subparagraph (B) shall be made according to the following formula:

$$X = A \times B/C$$

X = Adjusted Base Rent

A = Base Monthly Rent in effect as of the Adjustment Date

B = The monthly index in effect for the twelve-month period ending on the immediately preceding September 30th (the "Adjustment Index")

C = The monthly index in effect for the twelve-month period ending on September 30th one year prior to the Adjustment Index (the "Base Index")

The monthly Base Rent as so increased shall be payable for each month commencing with the Adjustment Date and continuing until the next Adjustment Date. In no event, however, shall the CPI Adjusted Base Rent be less than the rent payable for the month immediately preceding the Adjustment Date.

(2) If the Index is discontinued or revised during the term of this lease, such other government Index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

(3) In no event shall the Adjusted Base Rent increase by greater than two percent (2.0%) per annum.

For the Adjustment Date on 1 December 2011 and each year thereafter:

(1) The rent in effect as of the Adjustment Date in each year shall be increased by the greater of (A) one percent (1.0%); or (B) the percentage increase, if any, in the Consumer Price Index (All Items for All Urban Consumers 1982-84 = 100 Base), of the United States Department of Labor, Bureau of Labor Statistics for the Los Angeles-Anaheim-Riverside, California area for the twelve-month period ending on the immediately preceding September 30th (the "Index"). The calculation pursuant to subparagraph (B) shall be made according to the following formula:

$$X = A \times B/C$$

X = Adjusted Base Rent

A = Base Monthly Rent in effect as of the Adjustment Date

B = The monthly index in effect for the twelve-month period ending on the immediately preceding September 30th (the "Adjustment Index")

C = The monthly index in effect for the twelve-month period ending on September 30th one year prior to the Adjustment Index (the "Base Index")

The monthly Base Rent as so increased shall be payable for each month commencing with the Adjustment Date and continuing until the next Adjustment Date. In no event, however, shall the CPI Adjusted Base Rent be less than the rent payable for the month immediately preceding the Adjustment Date.

(2) If the Index is discontinued or revised during the term of this lease, such other government Index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

(3) In no event shall the Adjusted Base Rent increase by greater than four percent (4.0%) per annum.

2. Effective Date. The "Effective Date" of this Amendment shall be 1 February 2009.

3. Miscellaneous.

- 3.1 This Amendment shall be construed in accordance with, and all disputes hereunder shall be governed by, the internal laws of the State of California, venue in the County of Santa Barbara.
- 3.2 In the event of any controversy or dispute arising out of this Amendment, the prevailing party or parties shall be entitled to recover from the nonprevailing part or parties, reasonable expenses, including, without limitation, attorneys' fees and costs actually incurred.
- 3.3 Should any provision of this Amendment be declared or determined by any court to be illegal or invalid, the validity of the remaining parts, terms, or provisions shall not be affected thereby and such illegal or invalid part, term or provisions shall be deemed not to be a part of this Amendment.
- 3.4 This Amendment sets forth the entire agreement between the parties hereto, and fully supersedes any and all prior agreements or understandings between the parties hereto pertaining to the subject matter hereof.
- 3.5 Each part to this Agreement hereby represents and warrants that it has the legal power, right and authority to enter into this Agreement and to consummate this transaction and that it has not assigned any of its rights under the Sublease to any third party.
- 3.6 This Amendment may be executed in several counterparts and any and all such executed counterparts shall constitute one agreement binding upon the parties hereto.
- 3.7 This Amendment shall be binding on and shall inure to the benefit of the parties hereto and their respective successors and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first written above.

"Lessor"

1200 ENTERPRISES LLC

By: /s/ Carol Vernon

Print Name: Carol Vernon
Date: February 12, 2009

"Lessee"

SUPERCONDUCTOR TECHNOLOGIES, INC.

By: /s/ Jeffrey A Quiram

Print Name: Jeffrey A Quiram
Date: February 10, 2009

SUBSIDIARIES OF SUPERCONDUCTOR TECHNOLOGIES INC.

Conductus, Inc., a Delaware corporation
STI Investments Limited, a British Virgin Islands company
Superconductor Investments (Mauritius) Limited, a Mauritius company

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-50137, 333-90293, 333-56606, 333-89184, 333-102147, 333-105193, 333-106594 and 333-126121) and the Registration Statements on Form S-3 (File Nos. 333-65035, 333-48540, 333-71958, 333-84914, 333-99033, 333-102186, 333-106589, 333-111818, 333-117107 and 333-148115) of Superconductor Technologies Inc. of our report dated March 16, 2010 (which report expresses an unqualified opinion and includes an explanatory paragraph raising substantial doubt about the entity's ability to continue as a going concern) relating to the consolidated financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ Stonefield Josephson, Inc.

Los Angeles, California
March 16, 2010

**Statement Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by
Principal Executive Officer and Principal Financial Officer
Regarding Facts and Circumstances Relating to Exchange Act Filings**

I, Jeffrey A. Quiram, certify that:

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

Date: March 17, 2010

/s/ Jeffrey A. Quiram
Jeffrey A. Quiram
President and Chief Executive Officer

**Statement Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by
Principal Executive Officer and Principal Financial Officer
Regarding Facts and Circumstances Relating to Exchange Act Filings**

I, William J. Buchanan, certify that:

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

Date: March 17, 2010

/s/ William J. Buchanan

William J. Buchanan
Controller (Principal Accounting and Financial
Officer)

Statement Pursuant to Section 906 the Sarbanes-Oxley Act of 2002
By
Principal Executive Officer and Principal Financial Officer
Regarding Facts and Circumstances Relating to Exchange Act Filings

Dated: March 17, 2010

I, Jeffrey A. Quiram, Chief Executive Officer of Superconductor Technologies Inc, hereby certify, to my knowledge, that:

1. the accompanying Annual Report on Form 10-K of Superconductor Technologies for the annual period ended December 31, 2009 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Superconductor Technologies Inc.

IN WITNESS WHEREOF, the undersigned has executed this Statement as of the date first written above.

/s/ Jeffrey A. Quiram

Jeffrey A. Quiram
President and Chief Executive Officer

Statement Pursuant to Section 906 the Sarbanes-Oxley Act of 2002
By
Principal Executive Officer and Principal Financial Officer
Regarding Facts and Circumstances Relating to Exchange Act Filings

Dated: March 17, 2010

I, William J. Buchanan, Controller of Superconductor Technologies Inc, herby certify, to my knowledge, that:

1. the accompanying Annual Report on Form 10-K of Superconductor Technologies for the annual period ended December 31, 2009 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Superconductor Technologies Inc.

/s/ William J. Buchanan

William J. Buchanan
Controller, Principal Financial Officer, Principal
Accounting Officer

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