

# SUPERCONDUCTOR TECHNOLOGIES INC (SCON)

## 10-K

Annual report pursuant to section 13 and 15(d)

Filed on 03/30/2012

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

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**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, 2011**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 0-21074**

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**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

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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 definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/> (Do not check if smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>

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 \$52.2 million as of July 2, 2011 (the last business day of our most recently completed second fiscal quarter). The closing price of the common stock on that date was \$2.32 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 July 2, 2011. 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 40,268,376 shares of common stock outstanding as of the close of business on March 16, 2012.

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**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 2012 Annual Meeting of Stockholders.

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SUPERCONDUCTOR TECHNOLOGIES INC.

FORM 10-K ANNUAL REPORT

Year Ended December 31, 2011

*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;*
- our need to raise additional capital for our business;*
- our need to overcome additional technical challenges necessary to develop and commercialize HTS wire;*
- limited number of potential customers;*
- decreases in average selling prices for our products;*
- rapidly advancing technology in our target markets;*
- the impact of competitive products, technologies and pricing;*
- limited number of suppliers for some of our components;*
- no significant backlog from quarter to quarter;*
- fluctuations in sales and product demand from quarter to quarter can be significant;*
- our proprietary rights, while important to our business, are difficult and costly to protect;*
- manufacturing capacity constraints and difficulties;*
- the current worldwide recession; and*
- cost and uncertainty from compliance with environmental regulations.*

*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 developing and commercializing high temperature superconductor ("HTS") materials and related technologies. Superconductivity is 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. HTS materials are a family of elements that demonstrate superconducting properties at temperatures significantly warmer than previous superconducting materials. 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.

We were established in 1987 shortly after the discovery of HTS materials, a family of elements that demonstrate superconducting properties at temperatures significantly warmer than previous superconducting materials. Our stated objective was to develop products based on these materials for the commercial marketplace.

After analyzing the market opportunities available, we decided to pursue a strategic revenue opportunity developing products for the electronics industry.

Our initial product was completed in 1998 and we began delivery to a number of wireless network providers. In the following 13 years, we continued to refine and improve the platform, with the primary focus on improving reliability, increasing performance and runtime, and most importantly, removing cost from the manufacturing process of the required subsystems. Our cost reducing efforts led to the invention of our proprietary, high-yield and high throughput HTS material deposition manufacturing process.

In the last several years we have focused our research and development efforts on adapting our successful HTS materials deposition techniques to production of high performance second generation "2G" HTS wire for next generation power applications. While all our current commercial product revenues come from the sale of high performance wireless infrastructure products, we now see production of our Conductus<sup>®</sup> HTS wire as an excellent strategic opportunity to grow our future revenue.

**Commercialization**

Our development efforts over the last 25 years have yielded an extensive patent portfolio as well as critical trade secrets, unpatented technology and proprietary knowledge. We have commercialized wireless products using our proprietary technology and are currently focusing our efforts on this technology in superconducting power applications, RF filters and cryocoolers.

- *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.
- *Superconducting Power Applications.* As discussed above, 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. We have identified several large initial target markets for our 2G HTS wire including energy (wind turbines, smart grid) and industrial (motors, generators) applications. To accelerate development and manufacturing processes for our 2G HTS wire, we are partnering with HTS industry leaders and the United States National Labs. In July 2011, we renewed our three 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.

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- *RF Filters.* Our RF filter structures resemble a circuit on a semiconductor using a circuit that is etched into HTS materials that are deposited on a wafer. Our unique and innovative circuits allow us to utilize the characteristics of the HTS materials for this application, and we have developed unique tuning methods that allow us to produce a frequency specific filter. We are also leveraging our unique technology to design advanced reconfigurable filters, which have the potential to reduce the size and cost of mobile devices.
- *Cryocoolers.* We developed a unique cryocooler that can efficiently and reliably cool HTS circuits to the critical temperature (77 degrees Kelvin), and as a result, our wireless products are maintenance free and reliable enough to be deployed for many years.

Our development efforts (including those described above under Strategic Initiatives below) 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 Wireless Business**

Our current revenue comes from the design, manufacture, and sale of high performance infrastructure products for wireless communication applications. We have three current product lines all of which relate to wireless base stations:

- SuperLink<sup>®</sup>, 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<sup>®</sup>, a ground-mounted unit for wireless base stations that includes a high-performance amplifier and up to six dual duplexers; and
- 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 AT&T and Verizon Wireless. Verizon Wireless and AT&T each accounted for more than 10% of our commercial revenues in each of the last three years. Demand for wireless communications equipment fluctuates dramatically and unpredictably and recently has been trending downward. 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 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.

### **Our Strategic Initiatives**

In addition to our ongoing sale of products for wireless applications described above, we have created several unique capabilities and HTS manufacturing system related to a new HTS wire platform, RF filters and cryocoolers that we are seeking to commercially deploy by leveraging our leadership in superconducting technologies, extensive intellectual property, and HTS manufacturing expertise.

#### ***HTS Wire Platform***

Our 2G HTS wire product development is focused on large markets where the advantages of HTS wire are recognized by the industry. Our initial product roadmap targets three important applications: superconducting high power transmission cable, superconducting fault current limiters (SFCL) and superconducting rotating machines such as motors and generators.

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### *Superconducting High Power Transmission Cable:*

Superconducting high power transmission and distribution cable transmit 5 to 10 times the electrical current of traditional copper or aluminum cables with significantly improved efficiency. HTS power cable systems consist of the cable, which is comprised of 100's of strands of HTS wire wrapped around a copper core, and the cryogenic cooling system to maintain proper operating conditions. HTS superconducting cables offer solutions for utilities facing challenges that include: Substation footprint availability, lack of available rights of way, and high load connections between substations. HTS power cables are particularly suited to high load areas such as the dense urban business districts of large cities, where purchases of easements and construction costs for traditional low capacity cables may be cost prohibitive.

### *Superconducting Fault Current Limiter (SFCL):*

With power demand on the rise and new power generation sources being added, the grid has become overcrowded and vulnerable to catastrophic faults. Faults are abnormal flows of electrical current like a short circuit. As the grid is stressed, faults and power blackouts increase in frequency and severity. SFCLs act like powerful surge protectors, preventing harmful faults from taking down substation equipment by reducing the fault current to a safer level (20 – 50% reduction) so that the existing switchgear can still protect the grid. SFCLs protect against damaging fault currents and blackouts while enhancing system safety, stability, and efficiency. A critical benefit for new build outs is the improved system reliability when renewables, like solar and wind, are added. When compared to a complete substation upgrade, SFCLs are a significantly lower capital investment.

### *Superconducting Rotating Machines—Motors and Generators:*

Superconducting motors, generators, turbines and other rotating machines are expected to generate large future demand for 2G HTS wire. Coils utilizing HTS wire will enable electric motors and generators to operate at much higher power densities. When compared to a copper wire based electric machine with equivalent output power, future superconducting motors and generators will enable a significant size reductions for the motors with higher efficiency. One potential application for high-powered HTS generators is expected to be 10+ megawatt offshore wind turbines. Offshore superconducting wind turbines promise to capture clean energy at a lower cost than competing renewables, while delivering power directly to growing coastal cities. Offshore superconducting wind turbines are a long-term initiative for HTS technologies. Wind energy is taking shape as a critical world resource for electric power. Today, wind energy is primarily land based. The expected future trend is to exploit a largely untapped supply of offshore wind energy. However, it will take time to build enough infrastructure for offshore wind power to significantly contribute to the power grid. Superconducting wind turbines are expected to play a unique role offshore since conventional technology cannot achieve the necessary "power per tower". The increase in power density provided by superconducting turbines significantly reduces generator weight and maximizes power per tower, turning wind power into an economically viable alternative. And size reduction translates directly to cost savings by greatly reducing the amount of magnetic steel and structural steel required. Superior 2G HTS wire power handling performance at a lower cost will enable superconducting wire to replace incumbent and competing technologies.

### ***RF Filters***

Conventional RF filters are fabricated primarily from aluminum blocks with hollow cavities, resonators, and tuning elements incorporated to make a frequency specific filter. Our filter structures resemble a circuit on a semiconductor using a circuit that is etched into HTS materials that are deposited on a wafer. Our unique and innovative circuits allow us to utilize the characteristics of the HTS materials for this application. We have also developed unique tuning methods that allow us to produce a frequency specific filter.

In February 2012 our newly formed subsidiary, Resonant Inc., entered into an agreement to develop its innovative Reconfigurable Resonance (RcR) technology in the rapidly growing mobile communications

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products industry. Resonant will require financing in order to commence active development, and STI is currently exploring financing options and there is no assurance as to whether Resonant will obtain the necessary financing.

### *Cryocoolers*

HTS circuits need to be cooled to the critical temperature that enables the superconducting properties of the materials to be utilized. To meet this need, we developed a unique cryocooler that can efficiently and reliably cool the circuit to the critical temperature (77 degrees Kelvin). As a result, our wireless products are maintenance free and reliable enough to be deployed for many years.

### **Other Investments**

From time to time we may pursue joint ventures with other entities to commercialize our technology. In 2007, we formed a joint venture with Hunchun BaoLi Communication Co. Ltd. ("BAOLI") to manufacture and sell our SuperLink interference elimination solution in China. We use the equity method of accounting for our 45 percent joint venture interest. The joint venture agreement called for our joint venture partner to supply the capital and local expertise, and for us to provide a license of certain technology and supply key parts for manufacturing. Since 2007, we have been conducting lab and field trials in the existing China 2G market using our TD-SCDMA and SuperLink solutions. Although those activities continue, the parties have not completed their contributions to the joint venture, including most of the funding and our license, within the two year period specified by the agreement and Chinese law. The future of the joint venture, including any commencement of manufacturing and the transfer of our processes, will depend on product demand in China, completion of funding by our joint venture partner, as well as a number of other conditions, including certain critical approvals from the Chinese and United States governments. There continues to be no assurance that these conditions will be met and 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. As a result of this uncertainty, at December 31, 2009, we fully reserved against our investment in the joint venture of \$521,000. There was no such expense in 2011 or 2010.

### **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.

### **Government Contracts**

While we do not expect to continue to generate significant revenues from government contracts as we focus on our strategic initiatives going forward for 2011, 2010 and 2009, government related contracts accounted for 2%, 23% and 32%, 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;

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- 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.

### **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. In January 2012, we took possession of our new advanced manufacturing center of excellence in Austin, TX. The new facility addresses our growth expectations for the superconducting wire initiative. The opening of the new facility has been scheduled to coincide with the delivery of the first superconducting wire production ready equipment in early 2012.

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. 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. With respect to our HTS wire, we compete with American Superconductor, SuperPower and THEVA, among others. Our current and potential competitors with respect to our wireless business include conventional RF filter manufacturers, including CommScope, Powerwave, and RFS and both established and newly emerging companies developing similar or competing HTS technologies. In the government sector, we compete with

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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. 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.

### **Research and Development**

Most of our research and development activities are focused on developing our 2G HTS wire product. Our wireless products and government contract efforts require significantly less of our engineering resources today than in 2010 and 2009. We spent a total of \$5.4 million for 2011, and \$6.2 million and \$7.0 million for each of 2010 and 2009 on research and development, of which \$5.3 million, \$5.1 million and \$4.4 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 2%, 19% and 37% of total research and development costs for each of 2011, 2010 and 2009, respectively.

### **Our Proprietary Technology**

We have an extensive patent portfolio in addition to critical trade secrets, unpatented technology and proprietary knowledge. Our current patents expire at various dates from 2012 to 2028. We enter into confidentiality and non-disclosure agreements with our employees, suppliers and consultants to protect our proprietary information.

### **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 two locations: 460 Ward Drive, Santa Barbara, California 93111, and as of January 2012, 9101 Wall Street, Austin, Texas 78710. 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.suptech.com](http://www.suptech.com). The information on our web site is not incorporated herein by reference.

### **Employees**

As of December 31, 2011, we had a total of 38 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 \$13,000 at December 31, 2011, compared to \$342,000 at December 31, 2010.

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**ITEM 1A. FACTORS  
RISK**

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 2011, we incurred a net loss of \$13.4 million and had negative cash flows from operations of \$10.0 million. In 2010, we incurred a net loss of \$12.0 million and had negative cash flows from operations of \$9.4 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.

*We 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, 2011 we had \$6.2 million in cash and cash equivalents. Our cash resources 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.

Additional financing may not 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 and could also require that we issue warrants in connection with sales of our 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.

*Our strategic initiative to develop a new wire platform may not prove to be successful.*

We have spent a considerable amount of resources in developing a new wire platform for power applications. Substantial technical and business challenges remain before we have a commercially successful product introduction. We may not be able to overcome these challenges in a timely or cost effective manner, if at all. Such a failure could adversely impact our prospects, liquidity and stock price.

*There are numerous technological challenges that must be overcome in order for our HTS wire to become commercially successful and our ability to address such technological challenges may adversely affect our ability to gain customers.*

Our superconducting wire product is in the middle stages of development, and in the early stages of commercialization. There are a number of technological challenges to overcome for broad commercialization of

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HTS wire. First, the current HTS wire market is supply constrained. Current producers cannot manufacture sufficient wire to meet demand; customers cannot purchase long-length wire with any reasonable confidence or guaranteed volume; and electric utilities lack confidence in product availability which leads to delays in their deployment roadmap. Secondly, HTS wire performance is currently below what many customers require. Many power applications require high performance wire with high current carrying capacity, mechanical durability, electrical integrity with low AC losses and minimal splices. Producing high performance HTS wire has proven difficult, especially at volumes required for large scale deployment. Thirdly, high demand for premium performance wire available in very low volume results in a high wire price that narrows the market and limits commercial viability. Delays in our HTS wire development, as a result of technological challenges or other factors, may result in the introduction or commercial acceptance of our HTS wire products later than expected.

***The commercial uses of superconducting wire and superconducting wire related products are limited today, and a broad commercial market may not develop.***

Even if the technological hurdles are overcome, there is no certainty that a robust commercial market for unproven HTS wire products will come to fruition. To date, commercial use of HTS wire has been limited to small feasibility demonstrations, and these projects are largely subsidized by government authorities. While customer demand is high and market forecasts project large revenue opportunity for superconducting wire in power applications, the market may not develop and superconducting wire might never achieve long term, broad commercialization. In such an event, we would not be able to implement our business could be adversely impacted.

***We have limited experience marketing and selling superconducting wire products, and our failure to effectively market and sell our superconducting wire solutions would lower our revenue and cash flow.***

We have little experience marketing and selling our superconducting wire. Once our superconducting wire is ready for commercial use, we will have to hire and develop a marketing and sales team that will effectively demonstrate the advantages of our product over both more traditional products and competing superconducting products or other adjacent technologies. We may not be successful in our efforts to market this new technology.

***We rely on a small group of customers for the majority of our commercial wireless revenues, and the loss of any one of these customers could adversely affect our business.***

We sell most of our products to a small number of wireless carriers. We derived 96% of our commercial product revenues from Verizon Wireless and AT&T in 2011 and 92% in 2010 and 2009. Our future commercial wireless revenue depends upon the wireless carriers continuing to purchase our products, and fluctuations in demand from such customers could negatively impact our results.

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.

In addition the market for HTS wire would also consist of a small number of customers.

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

We face pressure to reduce prices and accordingly, the average selling price of our existing products has decreased over the years. We anticipate customer pressure on our product pricing will continue for the foreseeable future. In our HTS wire initiative, wire is currently being sold at \$250- 400/ kiloampere-meter (kA-m). At this price, HTS wire represents more than half the cost of the end device. A price reduction is

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required for long term commercialization. Cryogenic systems, including cryocoolers and cryostats, have been developed but will also need to be cost optimized as HTS wire becomes available in volume. 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.

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

Our current wireless products compete on the basis of performance, functionality, reliability, pricing, quality, and compliance with industry standards. With respect to our HTS materials, we compete with American Superconductor, SuperPower and THEVA, among others. Our current and potential wireless competitors include conventional RF filter manufacturers, CommScope, Powerwave, and RFS and both established and newly emerging companies developing similar or competing HTS technologies. 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. If we are unable to compete successfully against our current or future competitors, then our business and results of operations will be adversely affected.

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

Our products also compete with a number of alternative approaches and technologies. Some of these alternatives may be more cost effective or offer better performance than our products and we may not succeed in competing against these alternatives.

### ***We currently rely on specific technologies and may not successfully adapt to the rapidly changing market environments.***

We must overcome technical challenges to commercialize our HTS wire. If we are able to so, we will need to attain customer acceptance of our HTS wire, and we cannot ensure that such acceptance will occur. 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. Wireless telecommunication equipment is characterized by rapidly advancing technology. Our wireless business success depends upon our ability to keep pace with advancing wireless technology, including materials, processes and industry standards.

### ***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

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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.

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

Any substantial decrease or delay in capital spending patterns from our customers 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. Their capital spending patterns depend on a variety of factors, including access to financing, the status of federal, local and foreign government regulation and deregulation, overall demand, competitive pressures and general economic conditions. In addition, capital spending patterns 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.

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

The United States and global economies continue to experience a financial downturn, with some financial and economic analysts predicting that the global 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, 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.

***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. In addition, key components of our conventional products are

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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.

### ***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

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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.

***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.

***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.

***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.

***Regulatory changes could substantially harm our business.***

Certain regulatory agencies in the United States and other countries set standards for operations within their territories. Equipment marketed for use within their territories must meet specific technical standards. Our ability to sell our products is impacted by regulatory changes and requirements and depends on the ability of our customers to obtain and retain the necessary approvals and licenses. HTS wire is subject to a regulatory regime, which may become more strictly regulated. Any failure or delay 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

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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. In addition, we could incur expenditures related to hazardous material accidents.***

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. Current or future laws and regulations could require substantial expenditures for preventative or remedial action, reduction of chemical exposure, waste treatment or disposal. 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.

In addition, 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.

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### ***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 2007, we formed a joint venture with BAOLI to manufacture and sell our SuperLink interference elimination solution in China. 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 be significantly different 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;
- progress or any lack of progress (or perceptions related to progress) in timely overcoming the remaining substantial technical and commercial challenges related to our HTS wire initiative;
- 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;

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- 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.

***If we fail to maintain the listing of our common stock with a U.S. national securities exchange, the liquidity of our common stock could be adversely affected.***

Under Nasdaq's Marketplace Rule 5450(a)(1), if the bid price for our common stock, over 30 consecutive business days, closes below the minimum \$1.00 per share requirement for continued listing, we could be subject to delisting. Our stock price is currently less than \$1.00. In accordance with Nasdaq's Marketplace Rule 5810(c)(3)(A), if we were to receive notice of potential delisting, we would have a period of 180 calendar days to regain compliance.

We will continue to monitor the bid price for our common stock and if necessary, consider various options available to us if our common stock does not trade at a level that is likely to remain in compliance with Rule 5450(a)(1). If we fail to maintain our listing with any U.S. national securities exchange, our common stock may become more difficult for investors to trade, potentially leading to declines in our stock price.

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

As of December 31, 2011, we had outstanding options exercisable for an aggregate of 735,701 shares of common stock at a weighted average exercise price of \$6.64 per share. In February 2012, we sold warrants to purchase up to 5,033,414 shares of our common stock at an exercise price of \$1.35 per share. The warrants are exercisable at any time but not prior to the six-month anniversary of the issuance of the warrants and have a five-year term. We have registered the issuance of all the shares issuable upon exercise of the options and warrants, 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,

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without any further vote or action by the stockholders. At March 10, 2012, 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.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**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 November 2016. Commencing January 1, 2012 and expiring in November 2016 we sublet 26,000 square feet of our Santa Barbara facility and leased a 35,000 square foot facility in Austin, Texas that expires in April 2017. Although we currently have excess capacity, we believe these facilities can be managed in a flexible and cost effective manner and are 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. MINE SAFETY DISCLOSURES**

Not applicable.

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**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>
<b>2011</b>		
Quarter ended December 31, 2011	\$ 1.71	\$ 1.09
Quarter ended October 1, 2011	\$ 2.45	\$ 1.45
Quarter ended July 2, 2011	\$ 3.71	\$ 1.96
Quarter ended April 2, 2011	\$ 4.19	\$ 1.46
<b>2010</b>		
Quarter ended December 31, 2010	\$ 1.80	\$ 1.30
Quarter ended October 2, 2010	\$ 2.75	\$ 1.50
Quarter ended July 3, 2010	\$ 3.00	\$ 2.26
Quarter ended April 3, 2010	\$ 3.85	\$ 2.35

**Holders of Record**

We had 155 holders of record of our common stock on March 16, 2012. This number does not include stockholders for whom shares were held in a "nominee" or "street" name. We estimate that there are more than 10,000 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.

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 2011 that were not registered under the Securities Act of 1933.

**Repurchases of Equity Securities**

We did not repurchase any of our securities during the fourth quarter of 2011.

**Securities Authorized for Issuance Under Equity Compensation Plans**

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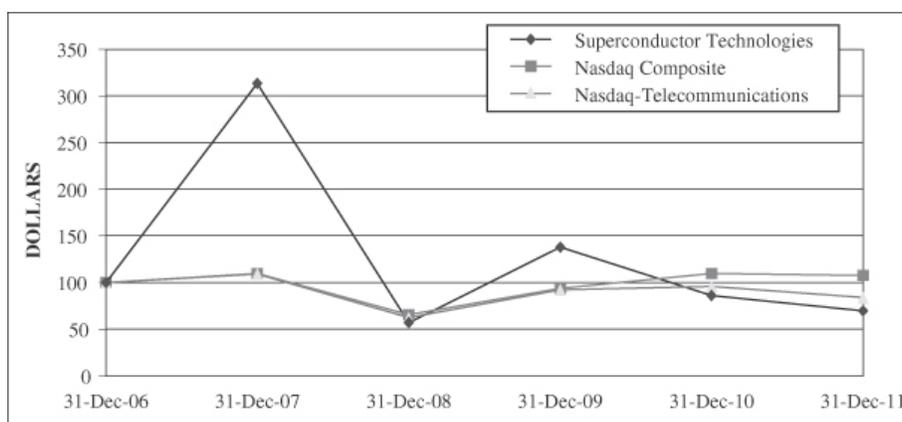
**Equity Compensation Plan Information**

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
Equity compensation plans approved by security holders	1,376,513	\$ 4.44	961,822
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>1,376,513</b>	<b>\$ 4.44</b>	<b>961,822</b>

**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, 2006 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).



	<b>31-Dec-06</b>	<b>31-Dec-07</b>	<b>31-Dec-08</b>	<b>31-Dec-09</b>	<b>31-Dec-10</b>	<b>31-Dec-11</b>
Superconductor Technologies	\$ 100.00	\$ 313.56	\$ 57.06	\$ 137.85	\$ 85.88	\$ 69.49
Nasdaq Composite	100.00	109.81	65.29	93.95	109.84	107.86
Nasdaq-Telecommunications	100.00	109.17	62.25	92.27	95.89	83.79

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**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,				
	2011	2010	2009	2008	2007
	(In thousands, except per share data)				
<b>Statement of Operations Data:</b>					
Net revenues:					
Net commercial product revenues	\$ 3,416	\$ 6,548	\$ 7,239	\$ 6,768	\$ 12,787
Government and other contract revenues	83	1,999	3,577	4,525	5,115
Total net revenues	3,499	8,547	10,816	11,293	17,902
Costs and expenses:					
Cost of commercial product revenues	5,434	7,732	9,102	8,911	12,944
Cost of government and other contract revenues	79	1,180	2,552	3,649	2,906
Other research and development	5,325	5,067	4,399	3,394	3,172
Selling, general and administrative	6,322	6,684	6,925	8,151	8,123
Restructuring expenses and impairment charges	—	—	—	141	—
Total costs and expenses	17,160	20,663	22,978	24,246	27,145
Loss from operations	(13,661)	(12,116)	(12,162)	(12,953)	(9,243)
Other income (expense), net	278	148	(817)	252	117
Net loss	\$ (13,383)	\$ (11,968)	\$ (12,979)	\$ (12,701)	\$ (9,126)
Basic and diluted net loss per common share	\$ (0.42)	\$ (0.51)	\$ (0.65)	\$ (0.77)	\$ (0.73)
Weighted average number of shares Outstanding	31,825	23,344	19,843	16,403	12,488

	Years Ended December 31,				
	2011	2010	2009	2008	2007
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 6,165	\$ 6,069	\$ 10,365	\$ 7,569	\$ 3,939
Working capital	7,161	7,655	12,557	12,253	3,293
Total assets	12,949	12,569	18,126	19,358	16,625
Long-term debt, including current portion	628	608	576	521	563
Total stockholders' equity	11,175	10,896	16,241	17,552	9,190

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**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 developing and commercializing high temperature superconductor ("HTS") materials and related technologies. HTS materials can substantially improve the performance characteristics of electrical systems, reducing power loss, lowering heat generation, and decreasing electrical noise.

**Results of Operations**

***2011 Compared to 2010***

Net revenues consist primarily of commercial product revenues and government contract revenues. Net revenues decreased by \$5.0 million, or 59%, to \$3.5 million in 2011 from \$8.5 million in 2010.

Net commercial product revenues decreased by \$3.1 million, or 48%, to \$3.4 million in 2011 from \$6.5 million in 2010. The decrease is the result of lower sales volume for all of our products. We sell our SuperLink and other performance enhancement products to large North American wireless operators. As our customers continue to invest in 4G networks, spending on 3G data networks, where our products are deployed, has become a secondary priority. This market dynamic has and we believe will continue to impact our commercial revenue. Sales prices for our products were essentially unchanged in 2011 from 2010. Our two largest customers accounted for 96% and 92% of our net commercial revenues in 2011 and 2010, respectively. 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 \$1.9 million, or 95%, to \$0.1 million in 2011 from \$2.0 million in 2010. This decrease was principally the result of the completion of a large contract. This reduced level of government contract revenue has been the planned result of our using more of our limited engineering resources on our commercial projects.

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 \$5.4 million for 2011 compared to \$7.7 million for 2010, a decrease of \$2.3 million, or 30%. The lower costs resulted principally from lower production as a result of lower sales. Our expense provision for obsolete inventories totaled \$717,000 in 2011 compared to \$360,000 in 2010.

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

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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 2011 and 2010:

<i>Dollars in Thousands</i>	Years Ended December 31,			
	2011		2010	
Net commercial product sales	\$ 3,416	100.0%	\$ 6,548	100.0%
Cost of commercial product sales	5,434	159.1%	7,732	118.1%
Gross loss	\$ (2,018)	59.1%	\$ (1,184)	18.1%

We had a negative gross margin of \$2.0 million in 2011 from the sale of our commercial products compared to a negative gross margin of \$1.2 million in 2010. The negative gross margin in 2011 was 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 \$717,000 charge for excess and obsolete inventory in 2011 and a similar charge of \$360,000 in 2010. 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 government and other contract revenue totaled \$79,000 in 2011 compared to \$1.2 million in 2010, a decrease of \$1.1 million, or 93%. 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, government and other contract expenses increased from 59% in 2010 to 95% in 2011 due to the very low sales level in 2011 and the fixed overhead costs required for delivery.

Research and development expenses relate to development of new products, including our wireless commercial products. These expenses also include design expenses associated with reducing the cost and improving the manufacturability of our existing products. Research and development expenses totaled \$5.3 million in 2011 compared to \$5.1 million in 2010, an increase of \$0.2 million, or 5%. In 2011, we decided to use certain of our own technologies and we therefore voluntarily terminated a patent license we had with a third party along with certain other related intangible assets. As a result, capitalized cost of \$0.8 million was expensed during 2011. Taking into account the aforementioned expense, research and development expenses decreased for 2011 as the result of reduced efforts for improving the manufacturability of our wireless products. 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 \$6.3 million in 2011 compared to \$6.7 million in 2010, a decrease of \$0.4 million, or 5%. The lower expenses in 2011 resulted primarily from a reduction in employees in the third quarter of 2011.

Other expense in 2010 included the subsequent income from the 2009 adjustment of the fair value expense of \$171,000 in 2009 from the treatment, as a derivative, of 608,237 warrants that were exercisable for common stock. The warrants expired, unexercised, in August 2010 and there was no such income or expense in 2011.

In 2011 and 2010 we reduced our work force and incurred severance charges of \$369,000 and \$211,000, respectively.

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Interest income increased to \$22,000 in 2011 compared to \$6,000 in 2010, primarily because of higher interest rates being paid on our money-market account funds.

Interest expense in 2011 and 2010 was \$13,000 and \$29,000, respectively.

Our loss totaled \$13.4 million in 2011, compared to \$12.0 million in 2010.

The net loss available to common stockholders totaled \$0.42 per common share in 2011, compared to \$0.51 per common share in 2010.

### **2010 Compared to 2009**

Net revenues decreased by \$2.3 million, or 21%, to \$8.5 million in 2010 from \$10.8 million in 2009.

Net commercial product revenues decreased by \$691,000, or 10%, to \$6.5 million in 2010 from \$7.2 million in 2009. The decrease is the result of lower sales volume for our SuperLink products. Average sales prices for our products were essentially unchanged in 2010 from 2009. Our two largest customers accounted for 92% of our net commercial revenues in 2010 and 2009. 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 \$1.6 million, or 44%, to \$2.0 million in 2010 from \$3.6 million in 2009. This decrease was principally the result of the completion of a large contract.

The cost of commercial product revenues totaled \$7.7 million for 2010 compared to \$9.1 million for 2009, a decrease of \$1.4 million, or 15%. The lower costs resulted principally from lower production as a result of lower sales. Our expense provision for obsolete inventories totaled \$360,000 in 2010 compared to \$282,000 in 2009.

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 2010 and 2009:

<i>Dollars in Thousands</i>	<b>Years Ended December 31,</b>			
	<b>2010</b>		<b>2009</b>	
Net commercial product sales	\$ 6,548	100.0%	\$ 7,239	100.0%
Cost of commercial product sales	7,732	118.1%	9,102	125.7%
Gross profit	\$ (1,184)	18.1%	\$ (1,863)	(25.7%)

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We had a negative gross margin of \$1.2 million in 2010 from the sale of our commercial products compared to a negative gross margin of \$1.9 million in 2009. The negative gross margin in 2010 was 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 \$360,000 charge for excess and obsolete inventory in 2010 and a similar charge of \$282,000 in 2009. Gross margins were favorably impacted by \$261,000 in 2009 by the sale of previously written-off inventory. There was no similar benefit in 2010. 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 government and other contract revenue totaled \$1.2 million in 2010 compared to \$2.6 million in 2009, a decrease of \$1.4 million, or 54%. 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, government and other contract expenses decreased from 71% in 2009 to 59% in 2010 because of different cost recognition criteria on one of our 2010 cost-plus contracts.

Research and development expenses totaled \$5.1 million in 2010 compared to \$4.4 million in 2009, an increase of \$0.7 million, or 15%. The increase is the result of new commercial products development effort. 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 \$6.7 million in 2010 compared to \$6.9 million in 2009, a decrease of \$0.2 million, or 3%. The lower expenses in 2010 resulted primarily from a reduction in employees in the third quarter of 2010.

Other expense in 2009 included a loss from our joint venture with BAOLI in China of \$638,000. There was no such expense in 2010. The adjustment of the fair value expense of \$171,000 in 2009, and subsequent income in 2010, represents the treatment, as a derivative, of 608,237 warrants that were exercisable for common stock. The warrants expired, unexercised, in August 2010.

In 2010 we reduced our work force and incurred severance charges of \$211,000. We incurred no severance charges in 2009.

Interest income decreased to \$6,000 in 2010, compared to \$24,000 in 2009, primarily because of lower interest rates being paid on our money-market account funds.

Interest expense in 2010 and 2009 was \$29,000 and \$32,000, respectively.

Our loss totaled \$12.0 million in 2010 compared to \$13.0 million in 2009.

The net loss available to common stockholders totaled \$0.51 per common share in 2010, compared to \$0.65 per common share in 2009.

## **Liquidity and Capital Resources**

### ***Cash Flow Analysis***

As of December 31, 2011, we had working capital of \$7.2 million, including \$6.2 million in cash and cash equivalents, compared to working capital of \$7.7 million at December 31, 2010, which included \$6.1 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.

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Cash and cash equivalents increased by \$0.1 million from \$6.1 million at December 31, 2010 to \$6.2 million at December 31, 2011. In 2011, cash was used principally in operations and to a lesser extent for the purchase of property and equipment. These uses were offset by net cash proceeds of \$12.4 million provided by the sale of common stock.

Cash used in operations totaled \$10.0 million in 2011. We used \$9.7 million to fund the cash portion of our net loss. We also used cash to fund a \$441,000 increase in inventory, prepaid expenses and other assets, and patents and licenses. These uses were offset by cash generated from lower accounts receivable and higher accounts payable totaling \$146,000.

Net cash used in investing activities was \$2.0 million. Purchase of fixed assets totaling \$2.3 million offset by the sale of property and equipment of \$0.3 million.

Net cash provided by financing activities in 2011 totaled \$12.1 million. Cash from the sale of common stock was \$12.4 million, net of approximately \$933,000 in expenses, from the registered direct sale of 5.4 million shares of common stock at \$2.45 per share in February 2011. This use was offset by our repurchase of \$303,000 of our common shares to satisfy tax withholding obligations due from our employees upon the vesting of their restricted stock awards.

### ***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.

As described below in "Future Liquidity", in a registered direct offering completed in February 2012 we raised proceeds of \$6.5 million, net of offering costs of \$577,000, from the sale of 6,711,219 shares of common stock and warrants to purchase up to 5,033,414 shares of common stock. These securities were sold in multiples of a fixed combination consisting of one share of common stock and a warrant to purchase up to 0.75 of a share of common stock, at a price of \$1.05, for an aggregate offering price of \$7.1 million. Each warrant will have an exercise price of \$1.35 per share, for total potential additional proceeds to us of up to \$6.7 million upon exercise of the warrants. The warrants are exercisable at any time but not prior to the six-month anniversary of the issuance of the warrants and have a five-year term. The warrants are exercisable for cash or, solely in the absence of an effective registration statement or prospectus, by cashless exercise. The exercise price of the warrants is subject to adjustment in the case of stock dividends or other distributions on shares of common stock or any other equity or equity equivalent securities payable in shares of common stock, stock splits, stock combinations, reclassifications or similar events affecting our common stock, and also, subject to limitations, upon any distribution of assets, including cash, stock or other property to our stockholders. The exercise price of the warrants is not subject to "price-based" anti-dilution adjustment.

In a registered direct offering completed in February 2011 we raised proceeds of \$12.4 million, net of offering costs of \$933,000, from the sale of 5,443,000 shares of common stock at \$2.45 per share based on a negotiated discount to market.

We had a line of credit with a bank. The agreement was structured as a sale of accounts receivable and provided for the sale of up to \$3.0 million of eligible accounts receivable, with advances to us totaling 80% of the receivables sold. We had not used this line of credit for several years and therefore allowed it to expire without renewal on July 11, 2011.

### ***Contractual Obligations and Commercial Commitments***

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

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*Operating Lease Obligations.* Our operating lease obligations consist of facilities leases in Santa Barbara, California and Austin, Texas, as well as several smaller equipment leases.

*Patents and Licenses.* We have entered into a licensing agreement requiring royalty payments ranging from 0.5% to 1.0% of specified product sales. The agreement contains a provision 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.

*Tabular Disclosure of Contractual Obligations.* At December 31, 2011, we had the following contractual obligations and commercial commitments:

Contractual Obligations	Payments Due by Period				
	Total	2012	2013 and 2014	2015 and 2016	2017 and beyond
Operating leases	8,134,000	1,513,000	3,238,000	3,316,000	67,000
Minimum license commitment	260,000	25,000	55,000	90,000	90,000
Fixed asset and inventory purchase commitments	1,933,000	1,933,000	—	—	—
Total contractual cash obligations	<u>\$ 10,327,000</u>	<u>\$ 3,471,000</u>	<u>\$ 3,293,000</u>	<u>\$ 3,406,000</u>	<u>\$ 157,000</u>

### *Capital Expenditures*

We plan to invest approximately \$4.0 million in fixed assets during 2012.

### *Future Liquidity*

In 2011, we incurred a net loss of \$13.4 million and had negative cash flows from operations of \$10.0 million. In 2010, we incurred a net loss of \$12.0 million and had negative cash flows from operations of \$9.4 million. Our independent registered public accounting firms have included in their audit reports for 2011 through 2009 an explanatory paragraph expressing doubt about our ability to continue as a going concern.

At December 31, 2011 we had \$6.2 million in cash. Our cash resources 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, licenses and we plan to leverage our leadership in superconducting technologies, extensive intellectual property, and HTS manufacturing expertise to develop and produce HTS wire. Because of the uncertainty of these factors, we may need to raise funds to meet our working capital needs. (See Note 13)

In February 2012, we raised proceeds of \$6.5 million, net of offering costs of \$577,000, from the sale of 6,711,219 shares of common stock and warrants to purchase up to 5,033,414 shares of common stock. These securities were sold in multiples of a fixed combination consisting of one share of common stock and a warrant to purchase up to 0.75 of a share of common stock, at a price of \$1.05, for an aggregate offering price of \$7.1 million.

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Each warrant will have an exercise price of \$1.35 per share, for total potential additional proceeds to us of up to \$6.7 million upon exercise of the warrants. The warrants are exercisable at any time but not prior to the six-month anniversary of the issuance of the warrants and have a five-year term. The warrants are exercisable for cash or, solely in the absence of an effective registration statement or prospectus, by cashless exercise. The exercise price of the warrants is subject to adjustment in the case of stock dividends or other distributions on shares of common stock or any other equity or equity equivalent securities payable in shares of common stock, stock splits, stock combinations, reclassifications or similar events affecting our common stock, and also, subject to limitations, upon any distribution of assets, including cash, stock or other property to our stockholders. The exercise price of the warrants is not subject to "price-based" anti-dilution adjustment.

Additional financing may not 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, 2011, we had net operating loss carryforwards for federal and state income tax purposes of approximately \$308.4 million and \$181.5 million, respectively, which expire in the years 2012 through 2031. Of these amounts, \$70.8 million and \$16.5 million, respectively, resulted from the acquisition of Conductus. Under the Internal Revenue Code change of control limitations, a maximum of \$94.4 million and \$70.2 million, respectively, will be available for reduction of taxable income. In addition, we had research and development and other tax credits for state income tax purposes of approximately \$273,000 and \$230,000, respectively, which expire in the years 2029 through 2031.

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 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 of \$87.6 million and \$70.8 million, respectively, which were incurred prior to the 2002 ownership changes will be subject in future periods to annual limitations of \$1.3 million and \$0.7 million, respectively. With respect to years 2003 thru 2008, our consolidated net operating loss carryforwards of \$119.2 million will be subject to annual limitation of \$3.8 million. Net operating losses incurred by us subsequent to the ownership changes totaled \$30.8 million and are not subject to this limitation. An additional \$3.8 million in losses were released from limitation during 2011 under Section 382. No changes of ownership occurred in 2011 for purposes of Section 382.

### **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.

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At December 31, 2011, we had approximately \$5.1 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 \$5,000 per annum.

### **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.

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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 indemnities 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.

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**ITEM 9A. AND PROCEDURES  
CONTROLS**

**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 Chief 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 Chief Financial Officer 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, 2011 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**

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, 2011. 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, 2011, our internal control over financial reporting is effective.

**ITEM 9B. INFORMATION  
OTHER**

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 2012 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, 2011.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated by reference to our Proxy Statement for the 2012 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, 2011.

**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 2012 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, 2011.

**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 2012 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, 2011.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this item is incorporated by reference to our Proxy Statement for the 2012 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, 2011.

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**PART IV**

**ITEM 15. AND FINANCIAL STATEMENT SCHEDULES**  
**EXHIBITS**

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

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

	<u>Page</u>
<a href="#">Reports of Independent Registered Public Accounting Firms</a>	F-1
<a href="#">Consolidated Balance Sheets as of December 31, 2011 and 2010</a>	F-3
<a href="#">Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009</a>	F-4
<a href="#">Consolidated Statements of Stockholders' Equity for the years ended December 31, 2011, 2010 and 2009</a>	F-5
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009</a>	F-6
<a href="#">Notes to Consolidated Financial Statements</a>	F-7

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. (19)
3.2	Amended and Restated Bylaws of Registrant. (19)
3.3	Amendment adopted March 29, 2010 to Amended and Restated Bylaws of Registrant. (20)
4.1	Form of Common Stock Certificate. (18)
4.2	Certificate of Designations of Registrant of Series A Convertible Preferred Stock of Registrant filed November 13, 2007. (17)
4.3	Certificate of Designations, Preferences and Rights of Series E Convertible Preferred Stock of Registrant. (1) expired 7/2/2011
4.4	Form of Warrant to Purchase Common Stock issued by Registrant on February 22, 2012 (23)
4.5	Form of Warrant to Purchase Common Stock issued by Registrant on February 22, 2012 (24)
10.1	Form of Change in Control Agreement dated March 28, 2003. (3) ***
10.2	Form of Amendment No. 1 to Change in Control Agreement dated as of May 24, 2005. (12) ***
10.3	Form of Amendment No. 2 to Change in Control Agreement dated as of December 31, 2006. (14) ***

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<u>Number</u>	<u>Description of Document</u>
10.4	Accounts Receivable Purchase Agreement by and between Registrant and Silicon Valley Bank, dated March 28, 2003, effective date June 23, 2003. (3)
10.5	Accounts Receivable Purchase Modification Agreement by and between Registrant and Silicon Valley Bank dated March 17, 2004. (5)
10.6	Amendment to Purchase Agreement by and between Registrant and Silicon Valley Bank dated as of April 27, 2004. (6)
10.7	Accounts Receivable Purchase Modification Agreement by and between Registrant and Silicon Valley Bank dated March 16, 2005. (10)
10.8	Third Amendment to Loan and Security Agreement by and between Registrant and Silicon Valley Bank dated June 16, 2006. (19)
10.9	Fourth Amendment to Loan and Security Agreement by and between Registrant and Silicon Valley Bank dated June 18, 2007. (19)
10.10	Sixth Amendment to Loan and Security Agreement by and between Registrant and Silicon Valley Bank dated July 31, 2008. (18)
10.11	Seventh Amendment to Loan and Security Agreement by and between Registrant and Silicon Valley Bank dated July 31, 2009. (19)
10.12	Eighth Amendment to Loan and Security Agreement by and between Registrant and Silicon Valley Bank dated July 28, 2010. (21)
10.13	Patent License Agreement by and between Registrant and Lucent Technologies GRL LLC. (4) **
10.14	License Agreement between Registrant and Sunpower, Inc. dated May 2, 2005. (7) **
10.15	Employment Agreement between Registrant and Jeffrey Quiram dated as of February 14, 2005. (8) ***
10.16	Stock Option Grant and 2003 Equity Incentive Plan Option Agreement between Registrant and Jeffrey Quiram dated February 14, 2005. (8) ***
10.17	Amendment to Employment Agreement between Registrant and Jeffrey Quiram dated as of December 31, 2006. (14) ***
10.18	2003 Equity Incentive Plan As Amended May 25, 2005. (11) ***
10.19	Form of Notice of Grant of Stock Options and Option Agreement for 2003 Equity Incentive Plan. (8) ***
10.20	Management Incentive Plan (July 24, 2006). (13) ***
10.21	Employment Agreement between Registrant and Terry White dated as of April 11, 2005. (9) ***
10.22	Amendment to Employment Agreement between Registrant and Terry White dated as of December 31, 2006. (14) ***
10.23	Compensation Policy for Non-Employee Directors dated March 18, 2005. (9) ***
10.24	Form of Director and Officer Indemnification Agreement. (12) ***
10.25	Lease Agreement between the Registrant and 1200 Enterprises LLC dated as of June 1, 2001. (2)
10.26	First Amendment to Lease between Registrant and 1200 Enterprises LLC dated October 1, 2007. (22)
10.27	Second Amendment to Lease between the Registrant and 1200 Enterprises LLC dated January 19, 2009. (19)

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<u>Number</u>	<u>Description of Document</u>
10.28	Third Amendment to Lease between the Registrant and 1200 Enterprises LLC dated October 26, 2011. (25)
10.29	Lease Agreement between the Registrant and Prologis Texas III LLC dated December 5, 2011. (25)
10.30	Agreement between Registrant and Hunchun BaoLi Communication Co., Ltd. ("BAOLI") dated August 17, 2007. (15)
10.31	First Amendment to Agreement between Registrant and BAOLI dated November 1, 2007 (16)
10.32	Second Amendment to Agreement between Registrant and BAOLI dated January 7, 2008. (16)
10.33	Framework Agreement between Registrant and BAOLI dated November 8, 2007. (16)
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). (16)
10.35	Form of Technology and Trademark License Agreement between Superconductor Investments (Mauritius) Limited, Registrant and BAOLI Superconductor Technology Co, Ltd (Exhibit B to Framework Agreement). (16)
10.36	Form of Common Stock Purchase Agreement dated February 3, 2011 (22)
10.37	Form of Securities Purchase Agreement dated February 20, 2012 (23)
10.38	Form of Securities Purchase Agreement dated February 16, 2012 (24)
14	Code of Business Conduct and Ethics. (12)
21	List of Subsidiaries. (25)
23.1	Consent of Marcum, LLP, Independent Registered Public Accounting Firm. (25)
23.2	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)
101	Financials provided in XBRL format
**	Confidential treatment has been previously granted for certain portions of these exhibits.
***	This exhibit is a management contract or compensatory plan or arrangement.

- 
- (1) Incorporated by reference from Registrant's Current Report on Form 8-K filed October 4, 2000.
  - (2) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended March 30, 2002, filed May 6, 2002.
  - (3) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 2003, filed May 13, 2003.
  - (4) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2003, filed March 11, 2004.
  - (5) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended April 3, 2004, filed May 12, 2004.
  - (6) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004, filed August 11, 2004.
  - (7) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004, filed November 10, 2004.
  - (8) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, filed March 16, 2005.

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- (9) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended April 2, 2005, filed May 6, 2005.
  - (10) Incorporated by reference from Registrants' Current Report on Form 8-K filed April 4, 2005.
  - (11) Incorporated by reference from Registrant's Current Report on Form 8-K filed May 27, 2005.
  - (12) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005, filed March 8, 2006.
  - (13) Incorporated by reference from Registrant's Current Report on Form 8-K filed July 28, 2006.
  - (14) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2006, filed April 2, 2007.
  - (15) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended September 29, 2007, filed November 13, 2007.
  - (16) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2007, filed March 27, 2008.
  - (17) Incorporated by reference from Registrant's Current Report on Form 8-K/A filed February 25, 2008.
  - (18) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, filed March 20, 2009.
  - (19) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2009, filed March 17, 2010.
  - (20) Incorporated by reference from Registrant's Current Report on Form 8-K filed April 2, 2010.
  - (21) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2010, filed November 10, 2010.
  - (22) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, filed March 21, 2011.
  - (23) Incorporated by reference from Registrant's Current Report on Form 8-K filed February 22, 2012.
  - (24) Incorporated by reference from Registrant's Current Report on Form 8-K/A filed February 22, 2012.
  - (25) Filed herewith.
- (b) Exhibits. See Item 15(a) above.

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**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. (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15(a)(2) as of and for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated 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 audits of the consolidated financial statements 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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, 2011, and 2010, and the results of its operations and its cash flows for the years then ended 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 the basic consolidated financial statements as a whole.

The accompanying consolidated 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 to the consolidated financial statements, the Company has incurred significant net losses since its inception and has an accumulated deficit of \$251,016,000 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 also described in Note 2. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Marcum LLP  
Los Angeles, California  
March 30, 2012

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**Report of Independent Registered Public Accounting Firm**

To the Audit Committee of 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 the related consolidated statements of operations, stockholders' equity and cash flows for each of the two 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 two 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 the Company as of December 31, 2009, and the results of its operations and its cash flows for each of the two 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 the basic financial statements taken as a whole.

The accompanying consolidated 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 as of December 31, 2009 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 consolidated 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

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**SUPERCONDUCTOR TECHNOLOGIES INC.  
CONSOLIDATED BALANCE SHEETS**

	December 31, 2011	December 31, 2010
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 6,165,000	\$ 6,069,000
Accounts receivable, net	61,000	108,000
Inventory, net	1,609,000	2,230,000
Prepaid expenses and other current assets	472,000	344,000
<b>Total Current Assets</b>	<b>8,307,000</b>	<b>8,751,000</b>
Property and equipment, net of accumulated depreciation of \$19,748,000 and \$21,948,000, respectively	2,871,000	1,334,000
Patents, licenses and purchased technology, net of accumulated amortization of \$2,342,000 and \$2,494,000, respectively	1,409,000	2,274,000
Other assets	362,000	210,000
<b>Total Assets</b>	<b>\$ 12,949,000</b>	<b>\$ 12,569,000</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 534,000	\$ 548,000
Accrued expenses	612,000	517,000
Other current liabilities	—	31,000
<b>Total Current Liabilities</b>	<b>1,146,000</b>	<b>1,096,000</b>
Other long term liabilities	628,000	577,000
<b>Total Liabilities</b>	<b>1,774,000</b>	<b>1,673,000</b>
Commitments and contingencies (Notes 7 and 8)		
Stockholders' Equity:		
Preferred stock, \$.001 par value, 2,000,000 shares authorized, 564,642 and 611,523 issued and outstanding, respectively	1,000	1,000
Common stock, \$.001 par value, 250,000,000 shares authorized, 33,362,281 and 27,217,408 shares issued and outstanding, respectively	33,000	28,000
Capital in excess of par value	262,157,000	248,500,000
Accumulated deficit	(251,016,000)	(237,633,000)
<b>Total Stockholders' Equity</b>	<b>11,175,000</b>	<b>10,896,000</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 12,949,000</b>	<b>\$ 12,569,000</b>

See accompanying report of independent registered public accounting firm and notes to the consolidated financial statements.

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**SUPERCONDUCTOR TECHNOLOGIES INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS**

	Years Ending December 31,		
	2011	2010	2009
Net revenues:			
Net commercial product revenues	\$ 3,416,000	\$ 6,548,000	\$ 7,239,000
Government and other contract revenues	83,000	1,999,000	3,577,000
<b>Total net revenues</b>	<b>3,499,000</b>	<b>8,547,000</b>	<b>10,816,000</b>
Costs and expenses:			
Cost of commercial product revenues	5,434,000	7,732,000	9,102,000
Cost of government and other contract revenues	79,000	1,180,000	2,552,000
Research and development	5,325,000	5,067,000	4,399,000
Selling, general and administrative	6,322,000	6,684,000	6,925,000
<b>Total costs and expenses</b>	<b>17,160,000</b>	<b>20,663,000</b>	<b>22,978,000</b>
<b>Loss from operations</b>	<b>(13,661,000)</b>	<b>(12,116,000)</b>	<b>(12,162,000)</b>
Other Income and Expense			
Impairment of asset for, and noncontrolling interest in joint venture	—	—	(638,000)
Adjustments to fair value of derivatives	—	171,000	(171,000)
Interest income	22,000	6,000	24,000
Other income	269,000	—	—
Interest expense	(13,000)	(29,000)	(32,000)
<b>Net loss</b>	<b>\$ (13,383,000)</b>	<b>\$ (11,968,000)</b>	<b>\$ (12,979,000)</b>
<b>Basic and diluted net loss per common share</b>	<b>\$ (0.42)</b>	<b>\$ (0.51)</b>	<b>\$ (0.65)</b>
Basic and diluted weighted average number of common shares outstanding	31,824,918	23,344,461	19,842,687

See accompanying report of independent registered public accounting firm and notes to the consolidated financial statements.

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**SUPERCONDUCTOR TECHNOLOGIES INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Convertible Preferred Stock		Common Stock		Capital in Excess of	Accumulated	Total
	Shares	Amount	Shares	Amount	Par Value	Deficit	
<b>Balance at December 31, 2008</b>	<b>611,523</b>	<b>\$ 1,000</b>	<b>17,869,030</b>	<b>\$18,000</b>	<b>\$230,219,000</b>	<b>\$(212,686,000)</b>	<b>\$ 17,552,000</b>
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
Net loss						(12,979,000)	(12,979,000)
<b>Balance at December 31, 2009</b>	<b>611,523</b>	<b>1,000</b>	<b>22,512,033</b>	<b>23,000</b>	<b>241,882,000</b>	<b>(225,665,000)</b>	<b>16,241,000</b>
Issuance of common stock (net of costs)			4,600,000	5,000	6,032,000		6,037,000
Repurchase of common stock to satisfy withholding obligations			(181,982)		(573,000)		(573,000)
Stock-based compensation			287,357		1,159,000		1,159,000
Net loss						(11,968,000)	(11,968,000)
<b>Balance at December 31, 2010</b>	<b>611,523</b>	<b>1,000</b>	<b>27,217,408</b>	<b>28,000</b>	<b>248,500,000</b>	<b>(237,633,000)</b>	<b>10,896,000</b>
Issuance of common stock (net of costs)			5,443,000	5,000	12,397,000		12,402,000
Conversion of preferred stock to common stock	(46,881)		468,810				
Repurchase of common stock to satisfy withholding obligations			(179,636)		(303,000)		(303,000)
Stock-based compensation			412,699		1,563,000		1,563,000
Net loss						(13,383,000)	(13,383,000)
<b>Balance at December 31, 2011</b>	<b>564,642</b>	<b>\$ 1,000</b>	<b>33,362,281</b>	<b>\$33,000</b>	<b>\$262,157,000</b>	<b>\$(251,016,000)</b>	<b>\$ 11,175,000</b>

See accompanying report of independent registered public accounting firm and notes to the consolidated financial statements.

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**SUPERCONDUCTOR TECHNOLOGIES INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31,		
	2011	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (13,383,000)	\$ (11,968,000)	\$ (12,979,000)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	805,000	976,000	1,462,000
Stock-based compensation expense	1,563,000	1,159,000	1,212,000
Provision for excess and obsolete inventories	717,000	360,000	282,000
Noncontrolling interest in joint venture	—	—	117,000
Fair value of derivatives	—	(171,000)	171,000
Asset impairment	—	—	521,000
Write off of intangibles	844,000	—	—
Gain on disposal of property and equipment	(269,000)	—	—
Changes in assets and liabilities:			
Accounts receivable	46,000	354,000	(107,000)
Inventories	(96,000)	54,000	2,352,000
Prepaid expenses and other current assets	(127,000)	101,000	(147,000)
Patents and licenses	(66,000)	(215,000)	(240,000)
Other assets	(152,000)	5,000	14,000
Accounts payable, accrued expenses and other liabilities	100,000	(40,000)	(92,000)
Net cash used in operating activities	<u>(10,018,000)</u>	<u>(9,385,000)</u>	<u>(7,434,000)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	(2,254,000)	(375,000)	(226,000)
Net proceeds from sale of property and equipment	269,000	—	—
Net cash used in investing activities	<u>(1,985,000)</u>	<u>(375,000)</u>	<u>(226,000)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Repurchase of common shares for withholding obligations	(303,000)	(573,000)	—
Net proceeds from sale of common stock	12,402,000	6,037,000	10,456,000
Net cash provided by financing activities	<u>12,099,000</u>	<u>5,464,000</u>	<u>10,456,000</u>
Net increase (decrease) in cash and cash equivalents	96,000	(4,296,000)	2,796,000
Cash and cash equivalents at beginning of year	6,069,000	10,365,000	7,569,000
Cash and cash equivalents at end of year	<u>\$ 6,165,000</u>	<u>\$ 6,069,000</u>	<u>\$ 10,365,000</u>

See accompanying report of independent registered public accounting firm and 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 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. We maintain our headquarters in Santa Barbara, California, however in January 2012 we took possession of a facility in Austin, Texas and anticipate we will move our HTS wire processes and our corporate headquarters to Austin. We will continue to maintain a presence in Santa Barbara for our existing research and development, certain business operations and commercial wireless business.

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). In addition, we have strategic initiatives for an HTS wire platform, RF filters and cryocoolers.

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 a significant source of revenues for us. For 2011, 2010 and 2009, government related contracts accounted for 2%, 23%, and 32%, respectively, of our net revenues.

**Note 2—Summary of Significant Accounting Policies**

***Basis of Presentation***

We have incurred significant net losses since our inception and have an accumulated deficit of \$251.0 million. In 2011, we incurred a net loss of \$13.4 million and had negative cash flows from operations of \$10.0 million. In 2010, we had an accumulated deficit of \$237.6 million, a net loss of \$12.0 million and negative cash flows from operations of \$ 9.4 million. These factors raise substantial doubt about our ability to continue as a going concern.

At December 31, 2011 we had \$6.2 million in cash. Our cash resources will not be sufficient to fund our business for the next 12 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 (*See Note 13*).

Additional financing may not 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.

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### ***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 what management believes to be 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.

### ***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. Account 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 consolidated 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

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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.

### ***Indemnities***

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 indemnities because 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 indemnities.

### ***Research and Development Costs***

Research and development costs are charged to operations 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. Additionally, in 2011, we decided to use certain of our own technologies and we therefore voluntarily terminated a patent license we had with a third party along with certain other related intangible assets. As a result, capitalized cost of \$0.8 million was charged to research and development during 2011.

### ***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. In 2011 and 2010 there were disposals totaling \$2,917,000 and \$12,000, respectively, and gains of \$269,000 and zero, respectively, from these disposals.

### ***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 was amortized using the straight-line method over seven years ended in 2009.

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### ***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 2011 and determined there was no impairment.

### ***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 consolidated 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.

Unrecognized tax positions, if ever recognized in the consolidated financial statements, are recorded in the consolidated statements of operations as part of the income tax provision. Our policy is to recognize interest and penalties accrued on uncertain tax positions, if any, as part of the income tax provision.

No liabilities for uncertain tax position were recognized in 2011. No interest or penalties on uncertain tax positions have been charged to operations to date. We are not under examination by any taxing authorities. The federal statute of limitations for examination of us is open for 2008 and subsequent filings.

### ***Marketing Costs***

All costs related to marketing and advertising our products are charged to operations 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, 2011.

### ***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

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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 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:

	2011	2010	2009
Cost of revenue	\$ 18,000	\$ 22,000	\$ 32,000
Research and development	477,000	322,000	287,000
Selling, general and administrative	1,068,000	815,000	893,000
	<u>\$ 1,563,000</u>	<u>\$ 1,159,000</u>	<u>\$ 1,212,000</u>

The impact to the consolidated statements of operations for 2011, 2010 and 2009 on basic and diluted earnings per share was \$0.05, \$0.05 and \$0.06, respectively. No stock compensation cost was capitalized during the three year period ended December 31, 2011.

### ***Use of Estimates***

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The significant estimates in the preparation of the consolidated 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 consolidated financial statements.

### ***Fair Value of Financial Instruments***

We have estimated the fair value amounts of our financial instruments using the available market information and valuation methodologies considered appropriate. We determined the book value of our cash and cash equivalents, accounts receivable, inventories, prepaid expenses and other current assets and other current liabilities as of December 31, 2011 and December 31, 2010 approximate fair value.

### ***Comprehensive Income***

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

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**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 consolidated statements of operations for all periods presented.

**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 2011, we had two customers that represented 79% and 14% of total net revenues and 34% of accounts receivable. In 2010, these two customers represented 58% and 12% of total net revenues and 31% 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 indemnities 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.

**Note 3—Short Term Borrowings**

We had a line of credit with a bank. The agreement was structured as a sale of accounts receivable and provided for the sale of up to \$3.0 million of eligible accounts receivable, with advances to us totaling 80% of the receivables sold. We had not used this line of credit for several years and therefore allowed it to expire without renewal on July 11, 2011.

**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 2011, 2010 or 2009.

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 2011, 2010 and 2009 as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</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	<u>5.8</u>	<u>5.8</u>	<u>5.8</u>
	<u>—%</u>	<u>—%</u>	<u>—%</u>

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

	2011	2010
Loss carryforwards	\$ 36,190,000	\$ 31,059,000
Capitalized research and development	370,000	736,000
Depreciation	2,251,000	2,429,000
Tax credits	425,000	282,000
Inventory	711,000	437,000
Acquired intellectual property	(90,000)	(90,000)
Other	301,000	247,000
Less: valuation allowance	(40,158,000)	(35,100,000)
	<u>\$ —</u>	<u>\$ —</u>

As of December 31, 2011, we had net operating loss carryforwards for federal and state income tax purposes of approximately \$308.4 million and \$181.5 million, respectively, which expire in the years 2012 through 2031. Of these amounts, \$70.8 million and \$16.5 million, respectively, resulted from the acquisition of Conductus. Under the Internal Revenue Code change of control limitations, a maximum of \$94.4 million and \$70.2 million, respectively, would be available for reduction of taxable income. 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 \$273,000 and \$230,000, respectively, which expire in the years 2029 through 2031.

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 sheets. The valuation allowance increased by \$5.1 million in 2011. The valuation allowance decreased by \$85.5 million in 2010 due to the revaluation of the deferred tax asset from loss carryforwards and tax credit carryforwards under the change in control provisions in the Internal Revenue Code. The valuation allowance had increased by \$3.0 million in 2009.

Section 382 of the Internal Revenue Code imposes an annual limitation on the utilization of net operating loss carryforwards 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 of \$87.6 million and \$70.8 million, respectively, which were incurred prior to the 2002 ownership changes, will be subject in future periods to annual limitations of \$1.3 million and \$700,000, respectively. With respect to years 2003 through 2008 our consolidated net operating loss carryforwards of \$119.2 million will be subject to annual limitation of \$3.8 million. Net operating losses incurred by us subsequent to the ownership changes totaled \$30.8 million and are not subject to this limitation. An additional \$3.8 million in losses were released from limitation during 2011 under Section 382. No changes of ownership occurred in 2011 for purposes of Section 382.

### **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,

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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 BAOLI and affiliates following such conversion does not exceed 9.9% of our outstanding common stock. In September 2011, 46,881 of these preferred shares were converted into 468,810 shares of our 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 shares 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 February 2011 we raised proceeds of \$12.4 million, net of offering costs of \$933,000, from the sale of 5,443,000 shares of common stock at \$2.45 per share based on a negotiated discount to market.

In an underwritten offering completed in August 2010 we raised net proceeds of \$5.2 million, net of offering costs of \$800,000, from the sale of 4 million shares of common stock at \$1.50 per share based on a negotiated discount to market. As a result of the exercise of the 15% over allotment in our August 2010 offering, in October 2010 we raised net proceeds of \$818,000, net of offering costs of \$82,000, from the sale of 600,000 shares of common stock at \$1.50 per share.

### *Equity Awards*

At December 31, 2011, we had three equity award option plans, 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, 2011, 961,822 shares of common stock were available for future grants under the 2003 Equity Incentive Plan.

There were no stock option exercises in the last three years.

We granted stock options in 2011 and 2010. We did not grant stock options in 2009. 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:

	2011	2010	2009
Per share fair value at grant date	\$ 1.34	\$ 1.89	\$ —
Risk free interest rate	1.5%	1.84%	—
Expected volatility	111%	116%	—
Dividend yield	0%	0%	—
Expected life in years	4.0	4.0	—

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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 year vesting term and a 10 year contractual term and vest at 33% after one year and then either ratably on a monthly basis or annually for the remaining two years. 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 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, 2011, 961,822 shares of common stock were available for future grants and options covering 1,376,513 shares were outstanding but not yet exercised. Option activity during the three years ended December 31, 2011 was as follows:

	Number of Shares	Weighted Average Exercise Price
<b>Outstanding at December 31, 2008</b>	<b>1,234,025</b>	<b>\$ 22.18</b>
Granted	—	—
Canceled	(89,149)	48.20
Exercised	—	—
<b>Outstanding at December 31, 2009</b>	<b>1,144,876</b>	<b>20.16</b>
Granted	225,498	2.47
Canceled	(287,008)	58.08
Exercised	—	—
<b>Outstanding at December 31, 2010</b>	<b>1,083,366</b>	<b>6.43</b>
Granted	633,932	1.80
Canceled	(340,785)	5.86
Exercised	—	—
<b>Outstanding at December 31, 2011</b>	<b>1,376,513</b>	<b>\$ 4.44</b>

The following table summarizes information concerning currently outstanding and exercisable stock options at December 31, 2011:

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 – \$1.58	429,364	9.05	\$ 1.58	2,200	\$ 1.52
1.61 – 2.62	189,802	8.23	2.39	66,154	2.41
2.77 – 4.03	260,900	4.40	3.47	170,900	3.79
4.90 – 5.12	302,323	5.97	5.12	302,323	5.12
5.20 – 74.50	194,124	2.85	13.04	194,124	13.04
	<u>1,376,513</u>	6.50	\$ 4.44	<u>735,701</u>	\$ 6.64

Our outstanding options expire on various dates through September 2021. The weighted-average contractual term of outstanding options was 6.50 years and the weighted-average contractual term of currently exercisable stock options was 5.2 years. At December 31, 2011, there were no outstanding options with an exercise price less than the current market value. The number of options exercisable and their weighted average exercise price at December 31, 2010 and 2009 totaled 830,552 and \$7.57 and 970,703 and \$22.96, respectively.

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The grant date fair value of each share of our restricted stock awards is equal to the fair value of our common stock at the grant date. Shares of restricted stock under awards all have service conditions and vest over one to four years. Some of our grants also have performance conditions. The following is a summary of our restricted stock award transactions for the year ended December 31, 2011:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance nonvested at December 31, 2010	720,723	\$ 1.84
Granted	596,932	1.69
Vested	(491,611)	1.36
Forfeited	(184,231)	2.38
Balance nonvested at December 31, 2011	<u>641,813</u>	<u>\$ 1.92</u>

The weighted-average grant date fair value of our restricted stock awards, their total fair value and the fair value of all shares that have vested during each of the past three years is as follows:

	Year ended December 31		
	2011	2010	2009
Weight-average grant date fair value	\$ 1.69	\$ 2.66	\$ 1.14
Fair value of restricted stock awards	\$ 1,009,000	\$ 911,000	\$ 1,014,000
Fair value of restricted stock awards vested	\$ 669,000	\$ 539,000	\$ —

For the majority of restricted stock awards granted, the number of shares issued on the date the restricted stock awards vest is net of the minimum statutory withholding requirements that we pay in cash to the appropriate taxing authorities on behalf of our employees. For the year ended December 31, 2011 we withheld 179,636 shares to satisfy \$303,000 of employees' tax obligations and for the year ended December 31, 2010 we withheld 181,982 shares to satisfy \$573,000 of employees' tax obligations.

The impact of all equity awards on the consolidated statements of operations for 2011 was an expense of \$1.6 million and \$0.05 on basic and diluted earnings per share. The 2010 and 2009 impact on net income was an expense of \$1.2 million and \$0.05 and \$0.06 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 \$907,000 and the weighted-average period over which the cost is expected to be recognized is 1.5 years. The total compensation cost related to non-vested stock awards not yet recognized was \$519,000, and the weighted-average period over which the cost is expected to be recognized is 9 months.

### **Warrants**

We had no warrants outstanding at December 31, 2011 and no warrants were exercised during the last three years.

On August 16, 2010, 608,237 warrants related to the issuance of common stock expired. The exercise price of these warrants had been adjusted under special anti-dilution adjustment provisions in the warrants relating to the price of other issuances of our common stock. Accordingly, we determined that these warrants were subject to fair value accounting as a derivative. We measured the fair value of this liability at its expiration date and determined its value to be zero. The fair value of this warrant liability was \$171,000 at December 31, 2009; therefore the 2010 fair value adjustment was a gain of \$171,000.

In a registered direct offering completed in February 2012 we raised proceeds of \$6.5 million, net of offering costs of \$577,000, from the sale of 6,711,219 shares of common stock and warrants to purchase up to 5,033,414 shares of common stock. The securities were sold in multiples of a fixed combination consisting of

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one share of common stock and a warrant to purchase up to 0.75 of a share of common stock, at a price of \$1.05, for an aggregate offering price of \$7.1 million. Each warrant will have an exercise price of \$1.35 per share, for total potential additional proceeds to us of up to \$6.8 million upon exercise of the warrants. The warrants are exercisable at any time but not prior to the six-month anniversary of the issuance of the warrants and have a five-year term. The warrants are exercisable for cash or, solely in the absence of an effective registration statement or prospectus, by cashless exercise. The exercise price of the warrants is subject to adjustment in the case of stock dividends or other distributions on shares of common stock or any other equity or equity equivalent securities payable in shares of common stock, stock splits, stock combinations, reclassifications or similar events affecting our common stock, and also, subject to limitations, upon any distribution of assets, including cash, stock or other property to our stockholders. The exercise price of the warrants is not subject to "price-based" anti-dilution adjustment.

### **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 401(k) Plan; however, contributions by us are made at the discretion of management. We made no contribution to the 401(k) plan in 2011, and we made contributions of \$251,000 in 2010 and \$241,000 in 2009.

### **Note 7—Commitments and Contingencies**

#### *Operating Leases*

We lease our offices and production facilities under non-cancelable operating leases in Santa Barbara, CA and, beginning in January 2012, Austin, TX that expire in November 2016 and March 2017, respectively. The leases contain minimum rent escalation clauses that require additional rental amounts after the first year. Rent expense for these leases with minimum annual rent escalation is recognized on a straight line basis over the minimum lease term. These leases also require us to pay utilities, insurance, taxes and other operating expenses and contain one five-year renewal option. We expect the January 1, 2012 partial sublease of our Santa Barbara facility will offset some of these expenses.

For 2011, 2010 and 2009, rent expense was \$1,094,000, \$1,065,000, and \$1,126,000, respectively.

#### *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 2011 to 2020. Royalty expenses totaled \$137,000 in 2011, \$183,000 in 2010, and \$161,000 in 2009. 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 leases and license obligations are as follows:

<b>Years Ended December 31,</b>	<b>Licenses</b>	<b>Operating Leases</b>
2012	\$ 25,000	\$ 1,513,000
2013	25,000	1,594,000
2014	30,000	1,644,000
2015	45,000	1,695,000
2016	45,000	1,621,000
Thereafter	90,000	67,000
<b>Total payments</b>	<b>\$ 260,000</b>	<b>\$ 8,134,000</b>

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**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 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 indemnities. Historically, any amounts payable pursuant to such director and officer indemnities 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 agree 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, we are unable to determine the maximum amount of losses that we could incur relating to such indemnities. Historically, any amounts payable pursuant to such indemnities have not had a material negative effect 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.

***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.

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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 earnings (loss) per share is based on the weighted-average number of common shares outstanding and diluted earnings (loss) per share was based on the weighted-average number of common shares outstanding plus all potentially dilutive 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:

	2011	2010	2009
Outstanding stock options	1,376,513	1,083,366	1,144,876
Unvested restricted stock awards	641,813	787,997	910,998
Outstanding warrants	—	10,000	618,237
Total	<u>2,018,326</u>	<u>1,881,363</u>	<u>2,674,111</u>

Also, the preferred stock convertible into 5,646,420, 6,115,230 and 6,115,230 shares of common stock at December 31, 2011, 2010 and 2009, respectively, was not included since their impact would be anti-dilutive.

**Note 11—Severance Charges**

In 2011, as part of our effort to reduce costs, we incurred \$369,000 in severance related expense. Severance expense in 2011 included in cost of goods sold was \$126,000 and severance expense included in operating expenses was \$243,000. At December 31, 2011, \$105,000 of these expenses were included in accrued expenses. In 2010, we reduced our workforce and incurred \$211,000 in severance costs. Severance expense included in cost of goods was \$22,000 and severance expense included in operating expenses was \$189,000. There were no such costs in 2009.

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

*Balance Sheet Data:*

	December 31, 2011	December 31, 2010
<b>Accounts receivable:</b>		
Accounts receivable-trade	\$ 15,000	\$ 36,000
U.S. government accounts receivable-billed	48,000	74,000
Less: allowance for doubtful accounts	(2,000)	(2,000)
	<u>\$ 61,000</u>	<u>\$ 108,000</u>

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	December 31, 2011	December 31, 2010
<b>Inventories:</b>		
Raw materials	\$ 1,169,000	\$ 1,499,000
Work-in-process	338,000	511,000
Finished goods	1,887,000	1,316,000
Less: inventory reserves	(1,785,000)	(1,096,000)
	<u>\$ 1,609,000</u>	<u>\$ 2,230,000</u>
	December 31, 2011	December 31, 2010
<b>Property and Equipment:</b>		
Equipment	\$ 15,557,000	\$ 16,092,000
Leasehold improvements	6,675,000	6,786,000
Furniture and fixtures	387,000	404,000
	<u>22,619,000</u>	<u>23,282,000</u>
Less: accumulated depreciation and amortization	(19,748,000)	(21,948,000)
	<u>\$ 2,871,000</u>	<u>\$ 1,334,000</u>

Depreciation expense amounted to \$701,000, \$871,000, and \$1,134,000 in 2011, 2010 and 2009, respectively. In 2011 and 2010 we disposed of older, fully depreciated equipment with an acquisition value of \$2,917,000 and \$12,000 respectively. There were no disposals in 2009.

	December 31, 2011	December 31, 2010
<b>Patents and Licenses:</b>		
Patents pending	\$ 522,000	\$ 1,110,000
Patents issued	1,523,000	1,382,000
Less accumulated amortization	(636,000)	(554,000)
Net patents issued	<u>887,000</u>	<u>828,000</u>
Licenses pending	—	7,000
Licenses	—	563,000
Less accumulated amortization	—	(234,000)
Net licenses Issued	<u>—</u>	<u>329,000</u>
Purchased technology	1,706,000	1,706,000
Less accumulated amortization	(1,706,000)	(1,706,000)
Net purchased technology	<u>—</u>	<u>—</u>
	<u>\$ 1,409,000</u>	<u>\$ 2,274,000</u>

Amortization expense related to these items totaled \$104,000, \$105,000 and, 328,000 in 2011, 2010, and 2009, respectively. Amortization expenses related to these items are expected to total \$106,000 in 2012 and \$90,000 in 2013.

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	December 31, 2011	December 31, 2010
Accrued Expenses and Other Long Term Liabilities:		
Salaries payable	\$ 68,000	\$ 116,000
Compensated absences	272,000	246,000
Compensation related	20,000	27,000
Warranty reserve	225,000	289,000
Deferred rent	422,000	391,000
Other	233,000	56,000
Total	<b>1,240,000</b>	<b>1,125,000</b>
Less current portion	<b>(612,000)</b>	<b>(548,000)</b>
Long term portion	<b>\$ 628,000</b>	<b>\$ 577,000</b>

	2011	2010	2009
<b>Warranty Reserve Activity:</b>			
Beginning balance	\$ 289,000	\$ 255,000	\$ 261,000
Additions	26,000	78,000	17,000
Deductions	(90,000)	(44,000)	(23,000)
Ending balance	<b>\$ 225,000</b>	<b>\$ 289,000</b>	<b>\$ 255,000</b>

**Supplemental Cash Flow Information:**

	2011	2010	2009
Cash paid for interest	\$ 13,000	\$ 29,000	\$ 32,000

**Note 13—Subsequent Events**

In a registered direct offering completed in February 2012 we raised proceeds of \$6.5 million, net of offering costs of \$577,000, from the sale of 6,711,219 shares of common stock and warrants to purchase up to 5,033,414 shares of common stock. The securities were sold in multiples of a fixed combination consisting of one share of common stock and a warrant to purchase up to 0.75 of a share of Common Stock, at a price of \$1.05, for an aggregate offering price of \$7.1 million. Each warrant will have an exercise price of \$1.35 per share, for total potential additional proceeds to us of up to \$6.8 million upon exercise of the warrants. The warrants are exercisable at any time but not prior to the six-month anniversary of the issuance of the warrants and have a five-year term. The warrants are exercisable for cash or, solely in the absence of an effective registration statement or prospectus, by cashless exercise. The exercise price of the warrants is subject to adjustment in the case of stock dividends or other distributions on shares of common stock or any other equity or equity equivalent securities payable in shares of common stock, stock splits, stock combinations, reclassifications or similar events affecting our common stock, and also, subject to limitations, upon any distribution of assets, including cash, stock or other property to our stockholders. The exercise price of the warrants is not subject to "price-based" anti-dilution adjustment.

In January 2012 we took possession of our Advanced Manufacturing Center of Excellence (AMCE) facility at 9101 Wall Street, Austin, Texas. We are preparing the building for the installation of HTS wire manufacturing equipment in early 2012. This facility positions us to meet the growing expectations of our prospective HTS wire customers by significantly increasing our production capacity. The facility will incorporate our HTS wire processes and our corporate headquarters. We will continue to maintain a presence in Santa Barbara, CA for our existing research and development, certain business operations and commercial wireless business. Also, effective January 1, 2012, we subleased a significant portion of our Santa Barbara facility in an effort to streamline our wireless product manufacturing and begin the relocation of our corporate offices to Austin.

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	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
<b>2011</b>				
Net revenues (1)	\$ 1,620,000	\$ 1,116,000	\$ 479,000	\$ 284,000
Loss from operations (2)	3,708,000	3,204,000	3,346,000	3,403,000
Net loss	3,713,000	3,209,000	3,329,000	3,132,000
Basic and diluted loss per common share	\$ (0.12)	\$ (0.10)	\$ (0.10)	\$ (0.10)
Weighted average number of shares outstanding	30,219,318	32,184,816	32,224,901	32,688,282
<b>2010</b>				
Net revenues (1)	\$ 3,415,000	\$ 2,369,000	\$ 1,974,000	\$ 789,000
Loss from operations (2)	2,538,000	3,248,000	3,351,000	2,979,000
Net loss	2,502,000	3,127,000	3,354,000	2,985,000
Basic and diluted loss per common share	\$ (0.11)	\$ (0.14)	\$ (0.14)	\$ (0.11)
Weighted average number of shares outstanding	21,808,816	21,870,717	23,335,955	26,430,011

- (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 \$0, \$0, \$63,000 and \$654,000, respectively, in the 2011 quarters and \$90,000, \$90,000, \$90,000 and \$90,000, respectively, in the 2010 quarters.

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## Schedule Valuation and Qualifying Accounts

## SUPERCONDUCTOR TECHNOLOGIES INC.

Schedule II—Valuation and Qualifying Accounts

	Beginning Balance	Additions		Deductions	Ending Balance
		Charged to Costs & Expenses	Charged to Other Accounts		
<b>2011</b>					
Allowance for Uncollectible Accounts	\$ 2,000	\$ —	\$ —	\$ —	\$ 2,000
Reserve for Inventory Obsolescence	1,096,000	717,000	—	(28,000)	1,785,000
Reserve for Warranty	289,000	26,000	—	(90,000)	225,000
Deferred Tax Asset Valuation Allowance	35,100,000	5,058,000	—	—	40,158,000
<b>2010</b>					
Allowance for Uncollectible Accounts	11,000	—	—	(9,000)	2,000
Reserve for Inventory Obsolescence	828,000	413,000	—	(145,000)	1,096,000
Reserve for Warranty	255,000	78,000	—	(44,000)	289,000
Deferred Tax Asset Valuation Allowance (1)	120,609,000	(85,509,000)	—	—	35,100,000
<b>2009</b>					
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

- (1) The deferred tax asset valuation allowance decreased by \$85.5 million in 2010 due to the revaluation of the deferred tax asset from loss carryforwards under the change in control provisions in the Internal Revenue Code.

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**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 30th day of March 2012.

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>
/s/ JEFFREY A. QUIRAM Jeffrey A. Quiram	President, Chief Executive Officer and Director (Principal Executive Officer)	March 30, 2012
/s/ WILLIAM J. BUCHANAN William J. Buchanan	Chief Financial Officer (Principal Financial and Accounting Officer)	March 30, 2012
/s/ DAVID W. VELLEQUETTE David W. Vellequette	Director	March 30, 2012
/s/ LYNN J. DAVIS Lynn J. Davis	Director	March 30, 2012
/s/ DENNIS J. HOROWITZ Dennis J. Horowitz	Director	March 30, 2012
/s/ MARTIN A. KAPLAN Martin A. Kaplan	Chairman of the Board	March 30, 2012
/s/ JOHN D. LOCKTON John D. Lockton	Director	March 30, 2012

**THIRD AMENDMENT TO LEASE**

This Third Amendment to Lease (this "Amendment") is made and entered into as of October, 26, 2011 by and between 1200 Enterprises LLC ("Lessor"), Superconductor Technologies, Inc., a Delaware corporation, ("Lessee") and Arthrex, Inc., a Delaware corporation ("Sublessee") and amends that Standard Industrial/Commercial Multi-Tenant Lease-Net between Lessor and Lessee dated June 1, 2001, as subsequently amended (the "Lease"), for approximately 70,538 square feet of space in the building located at 460 Ward Drive, Santa Barbara, CA 93111 (the "Premises") a site plan for which is attached hereto as Exhibit C.

A. Concurrent with the execution of this Amendment, Lessee is subleasing a portion of the Premises consisting of approximately 26,071 square feet (the "Sublet Premises") to Sublessee pursuant to that certain Standard Sublease Multi-Tenant between Lessee and Sublessee of even date herewith (the "Sublease");

B. The Expiration Date of the Lease is November 30, 2016. In connection with the Sublease, Lessor has agreed to amend the Lease to grant (i) Sublessee an option to extend the Lease for two additional sixty month terms in accordance with the term and conditions set forth herein, and (ii) Lessee a conditional option to extend the Lease for just Suite F consisting of approximately 13,437 square feet ("Suite F") for two additional sixty month terms which Suite F option will only be valid if Sublessee does not exercise its option to extend.

**NOW, THEREFORE**, the parties hereto hereby agree that the Lease shall be amended as set forth below. Capitalized terms not otherwise defined herein shall have the same meanings assigned to such terms in the Lease.

1. Paragraph 50 shall be deleted in its entirety and replaced with the following:

Paragraph 50.

**A. Sublessee's Options to Extend.**

Subject to the other terms and conditions set forth herein, Lessor hereby grants an option to Sublessee to extend the Lease for two sixty (60) month periods (the "Options") commencing when the current term expires upon each and all of the following terms and conditions:

- (i) In order to exercise the Options, Sublessee must give written notice of such election to Master Lessor and Master Lessor must receive the same at least six (6) but no more than nine (9) months prior to the date that the option period would commence, time being of the essence. If proper notification of the exercise of an Option is not given and/or received, such Option shall automatically expire. The Options may only be exercised consecutively.
- (ii) The provisions of paragraph 39, including those relating to a Default set forth in paragraph 39.4 of this Lease (except to the extent Lessee is in Default and Sublessee assumes the Lease pursuant to the Non-Disturbance Agreement between Landlord and Sublessee of even date herewith), are conditions of the Options.

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(iii) During the Option periods Sublessee shall be bound by and perform all of the obligations of Lessee under the Lease and all of the terms and conditions of the Lease shall apply.

(iv) The Options are personal to the Sublessee or its permitted assignees, and cannot be assigned or exercised by anyone other than said Sublessee and only while Sublessee or its permitted assignee is in full possession of the Premises under the Lease, or with respect to the first Option, intends to take full possession thereof.

(v) As a condition to exercising the Options, Sublessee must provide Lessee with an option to sublease Suite F from Sublessee for a term concurrent with Sublessee's extended term at a price per square foot equal to what Sublessee must pay for the entire Premises. Sublessee shall be required to give Lessee notice that Sublessee is exercising Sublessee's Option within 10 days of the date it exercises such Option. Lessee shall then have thirty (30) days to exercise its option to sublease Suite F by providing written notice to both Sublessee and Lessor of such decision along with three executed originals of the Suite F sublease attached hereto as Exhibit A (the "Suite F Sublease"), and returning them to Sublessee. Sublessee shall then countersign the Suite F Subleases and send them to Lessor who shall sign them, provided all conditions of the Options have been met, and return one original to both the Lessee and Sublessee.

(vi) The monthly rent for each month of the Option period shall be calculated as follows, using the methods indicated below:

**I. Cost of Living Adjustments (COLA)**

On December 1, 2017, 2018, 2019, 2020, 2022, 2023, 2024, and 2025 the Base Rent shall be increased by the change, if any, from the base month specified below, in the Consumer Price Index of the Bureau of Labor Statistics of the U.S. Department of Labor for CPI U (All Urban Consumers), for Los Angeles,-Anaheim-Riverside, All items (1982-1984 = 100), herein referred to as "CPI".

The CPI increase shall be calculated as follows: the then current Base Rent under the Lease, shall be multiplied by a fraction the numerator of which shall be the CPI for September 2016 and the denominator of which shall be the CPI for September for the year in which the adjustment is to be made. The sum so calculated shall constitute the monthly rent hereunder; provided, however, in no event shall the increase be less than three percent (3%) or more than six percent (6%) of the Base Rent payable for the month immediately preceding the rent adjustment.

In the event the compilation and/or publication of the CPI shall be transformed to any other governmental department or bureau or agency or shall be discontinued, then the index most nearly the same as the CPI shall be used to make such calculation. In the event that the Parties cannot agree on such alternative index, then the matter shall be submitted for decision to American Arbitration Association in accordance with the then rules of said Association and the decision of the arbitrators shall be binding upon the Parties. The cost of said Arbitration shall be paid equally by the Parties.

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## **II. Market Rental Value Adjustments.**

The monthly Base Rent shall be adjusted to the "Market Rental Value" for the Premises on December 1, 2016 and 2021 as follows:

Four months prior to each Market Rental Value ("MRV") Adjustment Date described above, the Parties shall attempt to agree upon what the new MRV will be on the adjustment date. If agreement cannot be reached within thirty days, then:

(a) Lessor and Sublessee shall immediately appoint a mutually acceptable appraiser or broker to establish the new MRV within the next 30 days. Any associated costs will be split equally between the Parties, or

(b) Both Lessor and Sublessee shall each immediately make a reasonable determination of the MRV and submit such determination, in writing, to arbitration in accordance with the following provisions:

(i) Within 15 days thereafter, Lessor and Sublessee shall each select a broker of their choice to act as an arbitrator but such broker must have worked as a commercial leasing agent in Santa Barbara for at least the 10 previous years. The two arbitrators so appointed shall immediately select a third mutually acceptable neutral broker to act as a third arbitrator.

(ii) The 3 arbitrators shall within 30 days of the appointment of the third arbitrator reach a decision as to what the actual MRV for the Premises is, and whether Lessor or Sublessee's submitted MRV is the closest thereto. The decision of a majority of the arbitrators shall be binding on the parties. The submitted MRV which is determined to be the closest to the actual MRV shall thereafter be used by the Parties.

(iii) If either of the Parties fails to appoint an arbitrator within the specified 15 days, the arbitrator timely appointed by one of them shall reach a decision on his or her own, and said decisions shall be binding on the Parties.

(iv) The entire cost of such arbitration shall be paid by the party whose submitted MRV is not selected, i.e., the one that is NOT the closest to the actual MRV.

Notwithstanding the foregoing, the new MRV shall not be less than the rent payable for the month immediately preceding the MRV rent adjustment.

Upon the establishment of each New Market Rental Value:

(i) The new MRV will become the new "Base Rent" for the purpose of calculating any further Adjustments and

(ii) The first month of each Market Rental Value term shall become the new "Base Month" for the purpose of calculating any further Adjustments.

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**B. Lessee's Contingent Options to Extend.**

Subject to the other terms and conditions set forth herein, Lessor hereby grants an option to Lessee to extend the Lease, but only with respect to Suite F, for two sixty (60) month periods (the "Suite F Options") commencing when the current term expires; provided, however that such Suite F Options are contingent upon Sublessee not exercising its Options as provided in subsection A (i) above. The Suite F Options shall be null and void if Sublessee exercises its Options. However, if Sublessee does not exercise its Options in a timely manner, Lessee may exercise the Suite F Options upon each and all of the following terms and conditions:

(i) In order to exercise the Suite F Options, Lessee must give written notice of such election to Lessor, and Lessor must receive the same, within thirty (30) days of the date that Lessee receives notice that Sublessee is not exercising its Option, time being of the essence. If proper notification of the exercise of the Suite F Option is not given and/or received, such Suite F Option shall automatically expire. The Suite F Options may only be exercised consecutively.

(ii) The provisions of paragraph 39, including those relating to a Default set forth in paragraph 39.4 of this Lease are conditions of the Suite F Options.

(iii) During the Suite F Option periods Lessee shall be bound by and perform all of its obligations under the Lease except the Premises will be limited to and defined as Suite F which consists of approximately 13,437 square feet of space and all of the terms and conditions of the Lease shall apply. Lessee shall pay its pro-rata share of all Common Area Operating Expenses accordingly.

(iv) The Suite F Options are personal to the Lessee or its permitted assignees, and cannot be assigned or exercised by anyone other than said Lessee and only while Lessee or its permitted assignee is in full possession of Suite F.

(v) The monthly rent for each month of the Suite F Option periods shall be calculated as follows, using the methods indicated below:

**I. Cost of Living Adjustments (COLA)**

On December 1, 2017, 2018, 2019, 2020, 2022, 2023, 2024, and 2025 the Base Rent shall be increased by the change, if any, from the base month specified below, in the Consumer Price Index of the Bureau of Labor Statistics of the U.S. Department of Labor for CPI U (All Urban Consumers), for Los Angeles,-Anaheim-Riverside, All items (1982-1984 = 100), herein referred to as "CPI".

The CPI increase shall be calculated as follows: the then current Base Rent under the Lease shall be multiplied by a fraction the numerator of which shall be the CPI for September 2016 and the denominator of which shall be the CPI for September for the year in which the adjustment is to be made. The sum so calculated shall constitute the monthly rent hereunder; provided, however, in no event shall the increase be less than three percent (3%) or more than six percent (6%). of the Base Rent payable for the month immediately preceding the rent adjustment.

In the event the compilation and/or publication of the CPI shall be transformed to any other governmental department or bureau or agency or shall be discontinued, then the index most nearly the same as the CPI shall be used to make such calculation. In the event that the Parties cannot

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agree on such alternative index, then the matter shall be submitted for decision to American Arbitration Association in accordance with the then rules of said Association and the decision of the arbitrators shall be binding upon the Parties. The cost of said Arbitration shall be paid equally by the Parties.

## **II. Market Rental Value Adjustments.**

The monthly Base Rent shall be adjusted to the "Market Rental Value" for Suite F on December 1, 2016 and 2021 as follows:

Four months prior to each Market Rental Value ("MRV") Adjustment Date described above, the Parties shall attempt to agree upon what the new MRV will be on the adjustment date. If agreement cannot be reached within thirty days, then:

- (a) Lessor and Lessee shall immediately appoint a mutually acceptable appraiser or broker to establish the new MRV within the next 30 days. Any associated costs will be split equally between the Parties, or
- (b) Both Lessor and Lessee shall each immediately make a reasonable determination of the MRV and submit such determination, in writing, to arbitration in accordance with the following provisions:
  - (i) Within 15 days thereafter, Lessor and Lessee shall each select a broker of their choice to act as an arbitrator but such broker must have worked as a commercial leasing agent in Santa Barbara for at least the 10 previous years. The two arbitrators so appointed shall immediately select a third mutually acceptable neutral broker to act as a third arbitrator.
  - (ii) The 3 arbitrators shall within 30 days of the appointment of the third arbitrator reach a decision as to what the actual MRV for the Premises is, and whether Lessor or Lessee's submitted MRV is the closest thereto. The decision of a majority of the arbitrators shall be binding on the parties. The submitted MRV which is determined to be the closest to the actual MRV shall thereafter be used by the Parties.
  - (iii) If either of the Parties fails to appoint an arbitrator within the specified 15 days, the arbitrator timely appointed by one of them shall reach a decision on his or her own, and said decisions shall be binding on the Parties.
  - (iv) The entire cost of such arbitration shall be paid by the party whose submitted MRV is not selected, i.e., the one that is NOT the closest to the actual MRV.

Notwithstanding the foregoing, the new MRV shall not be less than the rent allocable to Suite F which is payable for the month immediately preceding the MRV rent adjustment.

Upon the establishment of each New Market Rental Value:

- (i) The new MRV will become the new "Base Rent" for the purpose of calculating any further Adjustments and

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(ii) The first month of each Market Rental Value term shall become the new "Base Month" for the purpose of calculating any further Adjustments.

**2. SECURITY DEPOSIT.** As a condition to exercising the first Option, Sublessee shall be required to deposit with Lessor an amount equal to the Base Rent and Lessee's estimated share of Common Area Operating Expenses for the coming year multiplied by five (5) as security for the faithful performance of the obligations of Sublessee under the Lease (the "Security Deposit"). The Security Deposit shall not bear interest and Lessor shall not be required to keep the Security Deposit separate from its general funds. If there is a Default under the Lease, Lessor shall have the right but not the obligation to apply the Security Deposit to pay any costs or expenses associated therewith, and if Lessor does so apply the Security Deposit, Lessee shall, upon demand, immediately deposit with Lessor an amount equal to the amount so applied. However, if Sublessee shall have fully performed all of its obligations under the Lease and no Default shall have occurred under the Lease, then on December 1<sup>st</sup> 2017, 2018, 2019 and 2020, one fifth (1/5<sup>th</sup>) of the Security Deposit shall be returned to Lessee on such dates as a rent credit to be applied against the Base Rent due that month. The remaining one fifth shall be returned to Sublessee within 30 days of the Lease expiration less any deductions made by Lessor. The Security Deposit may not be used as payment of the last month's Base Rent.

**3. SUBLESSEE'S RIGHT TO ASSIGN.** Notwithstanding anything in the Lease to the contrary, but subject to Sections 12.2 (a), (d) and (f) and 12.3 of the Lease, once Sublessee has exercised the Option, Sublessee may assign the Lease or sublet all or any portion of the Premises to an affiliated entity (a "Permitted Transferee") without obtaining Lessor's consent (a "Permitted Transfer") provided the new assignee or sublessee uses the Premises in a manner that is authorized under the Lease. In such case, Sublessee shall deliver to Lessor written notice of such assignment or sublease and copies of the documentation related thereto, along with an executed assignment and assumption agreement in the case of an assignment, within ten (10) days of the date of such assignment or subletting. For purposes of this Sublease, an "affiliated entity" shall mean an entity that is wholly-owned or controlled by Arthrex, Inc.

**4. RELEASE OF LESSEE.** In the event that Sublessee exercises the first Option to Extend, Lessee shall be relieved of any and all liability for claims first arising under the Lease after the commencement of the extension term.

**5. PERFORMANCE BY LESSOR.** Lessee represents and warrants that Lessor has completed any construction, build-out, improvements, alterations, or additions to the Premises required under the Lease. As of the date on which this Amendment, there are no defaults by the Lessor under the Lease or events which with notice or the passage of time or both would constitute a default by the Lessor in the performance of any of its obligations under the terms of the Lease.

**6. NON-DISTURBANCE AGREEMENT.** Concurrent with the execution of this Amendment, Lessor, Lessee and Sublessee shall enter into Non-Disturbance, Recognition and Attornment Agreement a form of which is attached hereto as Exhibit B.

**7. COMMISSION.** Lessor shall pay Pacifica Commercial Realty a commission of two percent (2%) of the Base Rent consideration to be paid by Sublessee during the first five year Option period which commission shall be payable if and when Sublessee or its Permitted Transferee has occupied the Premises, paid Rent for the first month of the Option period and deposited the required security deposit.



## LEASE AGREEMENT

THIS LEASE AGREEMENT is made this 5th day of December, 2011, between Prologis Texas III LLC, a Delaware limited liability company ("Landlord"), and the Tenant named below.

<b>Tenant:</b>	<u>Superconductor Technologies Inc.</u>	
<b>Tenant's Representative, Address, and Telephone:</b>	<u>460 Ward Drive</u> <u>Santa Barbara, CA 93111</u> <u>(805) 690-4666</u> <u>Attn: Bob Johnson Senior VP-Operations</u>	
<b>Premises:</b>	That portion of the Building, containing approximately <u>35,083</u> rentable square feet, as determined by Landlord, as shown on Exhibit A.	
<b>Project:</b>	The project commonly known as <u>Walnut Creek Corporate Center, consisting of 217,200</u> rentable square feet.	
<b>Building:</b>	<u>Walnut Creek Corporate Center, Building 13, consisting of 94,000</u> rentable square feet. <u>9101 Wall Street</u> <u>Austin, Texas 78754</u>	
<b>Tenant's Proportionate Share of Project:</b>	<u>16.152%</u>	
<b>Tenant's Proportionate Share of Building:</b>	<u>37.322%</u>	
<b>Lease Term:</b>	Sixty-three (63) full calendar months, beginning on the Commencement Date and ending on the last day of the 63rd full month following the Commencement Date.	
<b>Commencement Date:</b>	<u>January 1, 2012</u>	
<b>Initial Monthly Base Rent:</b>	See Addendum 1	
<b>Initial Estimated Monthly Operating Expense Payments:</b> (estimates only and subject to adjustment to actual costs and expenses according to the provisions of this Lease)	1. Utilities: In CAM	\$ 1,228.00
	2. Common Area Charges:	
	3. Taxes:	\$ 3,017.00
	4. Insurance:	\$ 176.00
	5. Others: Mgmt. Fee	\$ 561.00
<b>Initial Estimated Monthly Operating Expense Payments:</b>		<u>\$ 4,982.00</u>
<b>Initial Monthly Base Rent and Estimated Operating Expense Payments:</b>		<u>\$19,015.20</u>
<b>Rent Payment Address:</b>	<u>ProLogis Texas I LLC – NAIFIILP</u> <u>Bank of America Lockbox Services</u> <u>Lockbox #847757</u> <u>1950 N. Stemmons Freeway #5010</u> <u>Dallas, TX 75207</u>	
<b>Security Deposit:</b>	<u>\$180,000.00 (See Paragraph 5)</u>	
<b>Broker:</b>	<u>CB Richard Ellis for Tenant</u> <u>Live Oak Gottesman for Landlord</u>	

<b>Addenda:</b>	<u>1. Base Rent Adjustments 2. HVAC Maintenance Contract 3. Move Out Conditions 4. Right of First Refusal (Recurring) 5. Two Renewal Options at Market 6. Miscellaneous Demising Wall Provisions 7. Temporary Lease of Bathrooms</u>
<b>Exhibits:</b>	<u>A. Site Plan B. Commencement Date Certificate C-1., C-1A and C-2. Preliminary Plans D. Sign Criteria E. Project Rules and Regulations</u>

1. **Granting Clause.** In consideration of the obligation of Tenant to pay rent as herein provided and in consideration of the other terms, covenants, and conditions hereof, Landlord leases to Tenant, and Tenant takes from Landlord, the Premises, to have and to hold for the Lease Term, subject to the terms, covenants and conditions of this Lease.

2. **Acceptance of Premises.** Tenant shall accept the Premises in its condition as of the Commencement Date, subject to all applicable laws, ordinances, regulations, covenants and restrictions. Landlord has made no representation or warranty as to the suitability of the Premises for the conduct of Tenant's business, and Tenant waives any implied warranty that the Premises are suitable for Tenant's intended purposes. In no event shall Landlord have any obligation for any defects in the Premises or any limitation on its use. The taking of possession of the Premises shall be conclusive evidence that Tenant accepts the Premises and that the Premises were in good condition at the time possession was taken except for items that are Landlord's responsibility under Paragraph 10 and any punchlist items agreed to in writing by Landlord and Tenant. No later than 10 days after written demand is made therefor by Landlord of Tenant, Tenant shall execute and deliver to Landlord a Commencement Date Certificate in the form of Exhibit B attached to and hereby made a part of this Lease.

3. **Use.** The Premises shall be used only for the purpose of receiving, storing, manufacturing, shipping and selling (but specifically excluding retail selling) products, materials and merchandise manufactured and/or distributed by Tenant and for such other lawful purposes as may be incidental thereto. Tenant shall not conduct or give notice of any auction, liquidation, or going out of business sale on the Premises. Tenant will use the Premises in a careful, safe and proper manner and will not commit waste, overload the floor or structure of the Premises or subject the Premises to use that would damage the Premises.

Tenant shall not permit any objectionable or unpleasant odors, smoke, dust, gas, noise, or vibrations to emanate from the Premises, or take any other action that would constitute a nuisance or would disturb, unreasonably interfere with, or endanger Landlord or any tenants of the Project. Outside storage, including without limitation, storage of trucks and other vehicles, is prohibited without Landlord's prior written consent; provided, however, Tenant shall have the right to park operable vehicles and trailers overnight at the truck loading docks and designated truck and trailer parking areas for the Premises and operable automobiles in the designated automobile parking areas, and further provided there is no interference with the access of other tenants to the Building and Project parking lots and truck courts. Tenant, at its sole expense, shall use and occupy the Premises in compliance with all laws, including, without limitation, the Americans With Disabilities Act, orders, judgments, ordinances, regulations, codes, directives, permits, licenses, covenants and restrictions now or hereafter applicable to the Premises (collectively, "Legal Requirements"). The Premises shall not be used as a place of public accommodation under the Americans With Disabilities Act or similar state statutes or local ordinances or any regulations promulgated thereunder, all as may be amended from time to time. Tenant shall, at its expense, make any alterations or modifications, within or without the Premises that are required by Legal Requirements related to Tenant's use or occupation of the Premises. Tenant will not use or permit the Premises to be used for any purpose or in any manner that would void Tenant's or Landlord's insurance, increase the insurance risk, or cause the disallowance of any sprinkler credits. If any increase in the cost of any insurance on the Premises or the Project is caused by Tenant's use or occupation of the Premises, or because Tenant vacates the Premises, then Tenant shall pay the amount of such increase to Landlord. Any occupation of the Premises by Tenant prior to the Commencement Date shall be subject to all obligations of Tenant under this Lease.

Landlord agrees that it will include in all leases for the Building, a covenant prohibiting the Building's tenants from emitting unpleasant odors, smoke, dust, gas or vibrations from its premises such as to effect in a materially adverse way, the operations of Tenant hereunder. In the event that a Building 13 tenant violates the afore-said covenant, Tenant shall give written notice of such violation to Landlord and Landlord shall have a commercially reasonable time following its receipt of such notice to cause the offending tenant to cease such actions. In the event that Landlord fails to cure the violation within a commercially reasonable time, Tenant shall be entitled to request that Landlord assign to Tenant all of its rights and remedies against the offending tenant under the lease between Landlord and the offending tenant and Landlord shall assign same within three (3) business days of receiving a request for same. Thereafter, Tenant shall be entitled to prosecute an action against the offending tenant in Landlord's or

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Tenant's name, including, but not limited to, seeking and obtaining a temporary or permanent injunction enjoining the offending tenant from continuing with the prohibited actions. Tenant shall advise Landlord of any such prosecution actions and allow Landlord to reasonably participate in such actions.

**4. Base Rent.** Tenant shall pay Base Rent in the amount set forth on Page 1 of this Lease. The first month's Base Rent, the Security Deposit, and the first monthly installment of estimated Operating Expenses (as hereafter defined) shall be due and payable on the date hereof, and Tenant promises to pay to Landlord in advance, without demand, deduction or set-off, monthly installments of Base Rent on or before the first day of each calendar month succeeding the Commencement Date. Payments of Base Rent for any fractional calendar month shall be prorated. All payments required to be made by Tenant to Landlord hereunder (or to such other party as Landlord may from time to time specify in writing) shall be made by check or by Electronic Fund Transfer ("EFT") of immediately available federal funds before 11:00 a.m., Eastern Time at the Rent Payment Address as provided above or such other place, within the continental United States, as Landlord may from time to time designate to Tenant in writing. The obligation of Tenant to pay Base Rent and other sums to Landlord and the obligations of Landlord under this Lease are independent obligations. Tenant shall have no right at any time to abate, reduce, or set-off any rent due hereunder except as may be expressly provided in this Lease. If Tenant is delinquent in any monthly installment of Base Rent or of estimated Operating Expenses for more than 5 days, Tenant shall pay to Landlord on demand a late charge equal to 8 percent of such delinquent sum. The provision for such late charge shall be in addition to all of Landlord's other rights and remedies hereunder or at law and shall not be construed as a penalty.

**5. Security Deposit.** The Security Deposit has been delivered to Landlord on the date hereof and shall be held by Landlord as security for the performance of Tenant's obligations under this Lease. The Security Deposit is not an advance rental deposit or a measure of Landlord's damages in case of Tenant's default. Upon each occurrence of an Event of Default (hereinafter defined), Landlord may use all or part of the Security Deposit to pay delinquent payments due under this Lease, and the cost of any damage, injury, expense or liability caused by such Event of Default, without prejudice to any other remedy provided herein or provided by law. Tenant shall pay Landlord on demand the amount that will restore the Security Deposit to its original amount. Landlord's obligation respecting the Security Deposit is that of a debtor, not a trustee; no interest shall accrue thereon. The Security Deposit shall be the property of Landlord, but shall be paid to Tenant when Tenant's obligations under this Lease have been completely fulfilled, except as otherwise provided below. Landlord shall not be required to keep all or any part of the Security Deposit separate from its general accounts. Landlord shall be released from any obligation with respect to the Security Deposit upon transfer of this Lease and the Premises to a person or entity assuming Landlord's obligations under this Paragraph 5.

Provided that as of the first day of the 13<sup>th</sup>, 25<sup>th</sup>, 37<sup>th</sup>, 49<sup>th</sup> and 61<sup>st</sup> full calendar months of the Lease Term, (x) Tenant is the Tenant originally named herein, (y) Tenant actually occupies all of the Premises initially demised under this Lease and any space added to the Premises, and (z) no Event of Default has existed, exists, or would exist but for the passage of time or the giving of notice, or both; the Security Deposit required under this Lease shall decrease by \$30,000.00 on the first day of the 13<sup>th</sup>, 25<sup>th</sup>, 37<sup>th</sup>, 49<sup>th</sup> and 61<sup>st</sup> full calendar months following the Commencement Date and continuing until the Security Deposit shall equal \$60,000.00, so that as of such date and throughout the remainder of the Lease Term, the Security Deposit shall reflect a total amount of \$60,000.00. In the event Tenant meets the foregoing obligation to meet the reduction of the Security Deposit, Landlord shall pay to Tenant the reduced amount no later than 30 days following the effective date of the reduction.

**6. Operating Expense Payments.** During each month of the Lease Term, on the same date that Base Rent is due, Tenant shall pay Landlord an amount equal to 1/12 of the annual cost, as estimated by Landlord from time to time, of Tenant's Proportionate Share (hereinafter defined) of Operating Expenses for the Project. Payments thereof for any fractional calendar month shall be prorated. The term "Operating Expenses" means all costs and expenses incurred by Landlord with respect to the ownership, maintenance, and operation of the Project including, but not limited to costs of: Taxes (hereinafter defined) and fees payable to tax consultants and attorneys for consultation and contesting taxes; insurance; utilities, maintenance, repair and replacement of all portions of the Project, including without limitation, paving and parking areas, roads, non-structural components of the roofs (including the roof membrane), alleys, and driveways, mowing, landscaping, snow removal, exterior painting, utility lines, heating, ventilation and air conditioning systems, including, without limitation, the chilled air system, lighting, electrical systems and other mechanical and building systems; amounts paid to contractors and subcontractors for work or services performed in connection with any of the foregoing; charges or assessments of any association to which the Project is subject; property management fees payable to a property manager, including any affiliate of Landlord, or if there is no property manager, an administration fee of 15 percent of Operating Expenses payable to Landlord; security services, if any; trash collection, sweeping and removal; and additions or alterations made by Landlord to the Project or the Building in order to comply with Legal Requirements (other than those expressly required herein to be made by Tenant), provided that the cost of additions or alterations that are required to be capitalized for

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federal income tax purposes shall be amortized on a straight line basis over a period equal to the lesser of the useful life thereof for federal income tax purposes or 10 years. Operating Expenses do not include costs, expenses, depreciation or amortization for capital repairs and capital replacements required to be made by Landlord under Paragraph 10 of this Lease, debt service under mortgages or ground rent under ground leases, costs of restoration to the extent of net insurance proceeds received by Landlord with respect thereto, leasing commissions, or the costs of renovating space for tenants.

If Tenant's total payments of Operating Expenses for any year are less than Tenant's Proportionate Share of actual Operating Expenses for such year, then Tenant shall pay the difference to Landlord within 30 days after demand, and if more, then Landlord shall retain such excess and credit it against Tenant's next payments except that during the last calendar year of the Lease Term or any extension terms thereof, Landlord shall refund any such excess within 60 days following the termination of the Lease Term or any extension terms thereof, provided that Tenant is not in default of its obligations under this Lease. For purposes of calculating Tenant's Proportionate Share of Operating Expenses, a year shall mean a calendar year except the first year, which shall begin on the Commencement Date, and the last year, which shall end on the expiration of this Lease. With respect to Operating Expenses which Landlord allocates to the entire Project, Tenant's "Proportionate Share" shall be the percentage set forth on the first page of this Lease as Tenant's Proportionate Share of the Project as reasonably adjusted by Landlord in the future for changes in the physical size of the Premises or the Project; and, with respect to Operating Expenses which Landlord allocates only to the Building, Tenant's "Proportionate Share" shall be the percentage set forth on the first page of this Lease as Tenant's Proportionate Share of the Building as reasonably adjusted by Landlord in the future for changes in the physical size of the Premises or the Building. Landlord may equitably increase Tenant's Proportionate Share for any item of expense or cost reimbursable by Tenant that relates to a repair, replacement, or service that benefits only the Premises or only a portion of the Project or Building that includes the Premises or that varies with occupancy or use. The estimated Operating Expenses for the Premises set forth on the first page of this Lease are only estimates, and Landlord makes no guaranty or warranty that such estimates will be accurate.

**7. Utilities.** Tenant shall pay for all water, gas, electricity, heat, light, power, telephone, sewer, sprinkler services, refuse and trash collection, and other utilities and services used on the Premises, all maintenance charges for utilities, and any storm sewer charges or other similar charges for utilities imposed by any governmental entity or utility provider, together with any taxes, penalties, surcharges or the like pertaining to Tenant's use of the Premises. Except as may be expressly set forth in Addendum 6 (Miscellaneous Demising Wall Provisions), Landlord may cause at Tenant's expense any water and sewer utilities to be separately metered or charged directly to Tenant by the provider in the event Landlord reasonably determines that Tenant's use of such jointly metered utility materially exceeds the use of such jointly metered utility by other tenants in the Building. Tenant shall pay its share of all charges for jointly metered utilities, including, without limitation, the chilled air system, based upon consumption, as reasonably determined by Landlord. Furthermore, Tenant shall be responsible for all expenses related to the setup of the chilled air system for Tenant's use. No interruption or failure of utilities shall result in the termination of this Lease or the abatement of rent. Tenant agrees to limit use of water and sewer for normal restroom use.

Notwithstanding anything contained herein to the contrary, in the event that such interruption or cessation of utilities results from Landlord's negligent or willful act or omission continues beyond five (5) business days from the date of such interruption or cessation, then, provided Tenant has delivered Landlord with prompt notice of such interruption, the rent under this Lease will abate, commencing on the fifth (5<sup>th</sup>) business day the Premises remain untenable, and continuing until the date on which the utilities are restored and the Premises are again tenantable. No abatement of rentals as hereinabove described will apply in the event such interruption of utilities is the result of Tenant's alterations to the Premises, or any negligent act or omission of Tenant, its agents, employees or contractors, or any cause other than the negligent or willful act or omission of Landlord or its employees, agents or contractors.

**8. Taxes.** Landlord shall pay all taxes, assessments and governmental charges (collectively referred to as "Taxes") that accrue against the Project during the Lease Term, excluding the Texas Margins Tax, which shall be included as part of the Operating Expenses charged to Tenant. Landlord may contest by appropriate legal proceedings the amount, validity, or application of any Taxes or liens thereof. All capital levies or other taxes assessed or imposed on Landlord upon the rents payable to Landlord under this Lease and any franchise tax, any excise, use, margin, transaction, sales or privilege tax, assessment, levy or charge measured by or based, in whole or in part, upon such rents from the Premises and/or the Project or any portion thereof shall be paid by Tenant to Landlord monthly in estimated installments or upon demand, at the option of Landlord, as additional rent; provided, however, in no event shall Tenant be liable for any net income taxes imposed on Landlord unless such net income taxes are in substitution for any Taxes payable hereunder. If any such tax or excise is levied or assessed directly against Tenant or results from any Tenant-Made Alterations (defined below), then Tenant shall be responsible for and shall pay the same at such times and in such manner as the taxing authority shall require. Tenant shall be liable for all taxes levied or assessed against any personal property or fixtures placed in the Premises, whether levied or assessed against Landlord or Tenant.

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**9. Insurance.** Landlord shall maintain all risk or special form property insurance covering the full replacement cost of the Building and commercial general liability insurance on the Project in forms and amounts customary for properties substantially similar to the Project, subject to customary deductibles. Landlord may, but is not obligated to, maintain such other insurance and additional coverages as it may deem necessary, including but not limited to, rent loss insurance. All such insurance shall be included as part of the Operating Expenses charged to Tenant. The Project or Building may be included in a blanket policy (in which case the cost of such insurance allocable to the Project or Building will be determined by Landlord based upon the total insurance cost calculations). Tenant shall also reimburse Landlord for any increased premiums or additional insurance which Landlord reasonably deems necessary as a result of Tenant's use of the Premises.

Tenant, at its expense, shall maintain during the Lease Term the following insurance, at Tenant's sole cost and expense: (1) commercial general liability insurance applicable to the Premises and its appurtenances providing, on an occurrence basis, a minimum combined single limit of \$2,000,000; and in the event property of Tenant's invitees or customers are kept in, or about the, Premises, Tenant shall maintain warehouse's legal liability or bailee customers insurance for the full value of the property of such invitees or customers as determined by the warehouse contract between Tenant and its customer; (2) all risk or special form property insurance covering the full replacement cost of all property and improvements installed or placed in the Premises by Tenant; (3) workers' compensation insurance as required by the state in which the Premises is located and in amounts as may be required by applicable statute and shall include a waiver of subrogation in favor of Landlord; (4) employers liability insurance of at least \$1,000,000, (5) business automobile liability insurance having a combined single limit of not less than \$2,000,000 per occurrence insuring Tenant against liability arising out of the ownership maintenance or use of any owned, hired or nonowned automobiles, and (6) business interruption insurance with a limit of liability representing loss of at least approximately 6 months of income. Any company writing any of Tenant's insurance shall have an A.M. Best rating of not less than A-VIII and provide primary coverage to Landlord (any policy issued to Landlord providing duplicate or similar coverage shall be deemed excess over Tenant's policies). All commercial general liability and, if applicable, warehouse's legal liability or bailee customers insurance policies shall name Tenant as a named insured and Landlord, its property manager, and other designees of Landlord as the interest of such designees shall appear, as additional insureds. The limits and types of insurance maintained by Tenant shall not limit Tenant's liability under this Lease. Tenant shall provide Landlord with certificates of such insurance as required under this Lease prior to the earlier to occur of the Commencement Date or the date Tenant is provided with possession of the Premises, and thereafter upon renewals at least 15 days prior to the expiration of the insurance coverage. Acceptance by Landlord of delivery of any certificates of insurance does not constitute approval or agreement by Landlord that the insurance requirements of this section have been met, and failure of Landlord to identify a deficiency from evidence provided will not be construed as a waiver of Tenant's obligation to maintain such insurance. In the event any of the insurance policies required to be carried by Tenant under this Lease shall be cancelled prior to the expiration date of such policy, or if Tenant receives notice of any cancellation of such insurance policies from the insurer prior to the expiration date of such policy, Tenant shall: (a) immediately deliver notice to Landlord that such insurance has been, or is to be, cancelled, (b) shall promptly replace such insurance policy in order to assure no lapse of coverage shall occur, and (c) shall deliver to Landlord a certificate of insurance for such policy.

The all risk or special form property insurance obtained by Landlord and Tenant shall include a waiver of subrogation by the insurers and all rights based upon an assignment from its insured, against Landlord or Tenant, their officers, directors, employees, managers, agents, invitees and contractors, in connection with any loss or damage thereby insured against. Neither party nor its officers, directors, employees, managers, agents, invitees or contractors shall be liable to the other for loss or damage caused by any risk coverable by all risk or special form property insurance, and each party waives any claims against the other party, and its officers, directors, employees, managers, agents, invitees and contractors for such loss or damage. The failure of a party to insure its property shall not void this waiver. Tenant and its agents, employees and contractors shall not be liable for, and Landlord hereby waives all claims against such parties for losses resulting from an interruption of Landlord's business, or any person claiming through Landlord, resulting from any accident or occurrence in or upon the Premises or the Project from any cause whatsoever, including without limitation, damage caused in whole or in part, directly or indirectly, by the negligence of Tenant or its agents, employees or contractors. Landlord and its agents, employees and contractors shall not be liable for, and Tenant hereby waives all claims against such parties for losses resulting from an interruption of Tenant's business, or any person claiming through Tenant, resulting from any accident or occurrence in or upon the Premises or the Project from any cause whatsoever, including without limitation, damage caused in whole or in part, directly or indirectly, by the negligence of Landlord or its agents, employees or contractors.

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10. **Landlord's Repairs.** Landlord represents and warrants that as of the Commencement Date the Building's HVAC, chiller system, docks doors, levelers, and automatic doors are in good working order. Landlord shall repair, at its expense and without pass through as an Operating Expense, the structural soundness of the roof (which does not include the roof membrane), the structural soundness of the foundation, and the structural soundness of the exterior walls of the Building in good repair, reasonable wear and tear and uninsured losses and damages caused by Tenant, its agents and contractors excluded. The term "walls" as used in this Paragraph 10 shall not include windows, glass or plate glass, doors or overhead doors, special store fronts, dock bumpers, dock plates or levelers, or office entries. Tenant shall promptly give Landlord written notice of any repair required by Landlord pursuant to this Paragraph 10, after which Landlord shall have a reasonable opportunity to repair.

11. **Tenant's Repairs.** Landlord, at Tenant's expense as provided in Paragraph 6, shall maintain in good repair and condition the parking areas and other common areas of the Building, including, but not limited to driveways, alleys, landscape and grounds surrounding the Premises. Subject to Landlord's obligation in Paragraph 10 and subject to Paragraphs 9 and 15, Tenant, at its expense, shall repair, replace and maintain in good condition all portions of the Premises and all areas, improvements and systems exclusively serving the Premises including, without limitation, dock and loading areas, truck doors, plumbing, water and sewer lines up to points of common connection, fire sprinklers and fire protection systems, entries, doors, ceilings, windows, interior walls, and the interior side of demising walls, and heating, ventilation and air conditioning systems. Such repair and replacements include capital expenditures and repairs whose benefit may extend beyond the Term; provided that with respect to the heating, ventilation and air conditioning ("HVAC") systems Landlord shall complete such HVAC capital repairs and such HVAC capital expenditures shall be fully amortized in accordance with the Formula (defined hereafter) and reimbursed to Landlord over the remainder of the Lease Term, without regard to any extension or renewal option not then exercised. The "Formula" shall mean that number, the numerator of which shall be the number of months of the Lease Term remaining after such HVAC capital expenditures, and the denominator of which shall be the amortization period (in months) equal to the useful life of such HVAC repair or replacement multiplied by the cost of such HVAC capital expenditure or repair. Landlord shall pay for such HVAC capital expenditures and repairs and Tenant shall reimburse Landlord for its amortized share of same (determined as hereinabove set forth) in equal monthly installments in the same manner as the payment by Tenant to Landlord of the Operating Expenses. In the event Tenant extends the Lease Term either by way of an option or negotiated extension, such reimbursement by Tenant shall continue as provided above until such amortization period has expired. Heating, ventilation and air conditioning systems and other mechanical and building systems exclusively serving the Premises shall be maintained at Tenant's expense pursuant to maintenance service contracts entered into by Tenant or, at Landlord's election, by Landlord, in which case the costs of such contracts entered into by Landlord shall be included as an Operating Expense. The scope of services and contractors under such maintenance contracts shall be reasonably approved by Landlord. At Landlord's request, Tenant shall enter into a joint maintenance agreement with any railroad that services the Premises. If Tenant fails to perform any repair or replacement for which it is responsible, Landlord may perform such work and be reimbursed by Tenant within 10 days after demand therefor. Subject to Paragraphs 9 and 15, Tenant shall bear the full cost of any repair or replacement to any part of the Building or Project that results from damage caused by Tenant, its agents, contractors, or invitees and any repair that benefits only the Premises.

12. **Tenant-Made Alterations and Trade Fixtures.** Any alterations, additions, or improvements made by or on behalf of Tenant to the Premises ("Tenant-Made Alterations") shall be subject to Landlord's prior written consent. Tenant shall cause, at its expense, all Tenant-Made Alterations to comply with insurance requirements and with Legal Requirements and shall construct at its expense any alteration or modification required by Legal Requirements as a result of any Tenant-Made Alterations. All Tenant-Made Alterations shall be constructed in a good and workmanlike manner by contractors reasonably acceptable to Landlord and only good grades of materials shall be used.

(a) Subject to the foregoing, Tenant shall be entitled (but shall not be obligated) to construct, install and/or upgrade the finish-out for all or any portion of the Premises in relation to its initial occupancy of the Premises (hereafter the "Initial Finish-Out"). Attached hereto as Exhibit C-1, C-1A and C-2 are architectural renderings prepared by Tenant's architect showing Tenant's plans generally for the Initial Finish-Out in two phases, Phase One of the Initial Finish-Out will be done to the clean room in the Premises and Phase Two of the Initial Finish-Out will be done to the office component of the Premises (referred to collectively herein as "Tenant's Preliminary Plans"). By Landlord's execution of this Lease, Landlord approves the Initial Finish-Out as shown on Tenant's Preliminary Plans.

(b) As Tenant develops its plans and specifications for the Initial Finish-Out (which may be in one or more phases) (hereafter "Construction Drawings") for submittal to all governing authorities for approval thereof and to support the issuance of all necessary permits for the construction and/or operation of such improvements, Tenant shall submit the Construction Drawings to Landlord for its review and approval. To the extent that the Construction Drawings are in substantial compliance with Tenant's

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Preliminary Plans, Landlord shall approve same within ten (10) business days after receipt of the Construction Drawings. In the event that Landlord fails to approve the Construction Drawings, Landlord shall, at the time of notification to Tenant of its rejection, provide written comments of all rejected matters with proposals which, if followed by Tenant would result in Landlord's approval of the Construction Drawings. Thereafter, Tenant shall revise the Construction Drawings and resubmit same to Landlord for review and approval. Within five (5) business days of Landlord's receipt of Tenant's revised Construction Drawings, Landlord shall approve or reject the revised Construction Drawings, and again, if any matters are rejected, include proposals which if followed by Tenant will result in Landlord approving the Construction Drawings. This process of submittal and revision and/or comment shall continue each 5 business days until the Preliminary Plans are prepared to Landlord's and Tenant's satisfaction. Landlord acknowledges that time is of the essence in obtaining its approval of the Construction Drawings.

(c) Landlord shall have 30 days after receiving all future plans and specifications for Tenant-Made Alterations (excluding the Initial Finish Out) to approve or reject same. In the event that Landlord fails to approve any future plans and specifications and following the initial 30-day review period, the review and approval periods set forth in subsection (b) shall apply.

(d) Tenant shall reimburse Landlord for its reasonable costs in reviewing plans and specifications/Construction Drawings and in monitoring construction in an amount which is equal to Landlord's actual costs. Landlord's right to review plans and specifications/Construction Drawings and to monitor construction shall be solely for its own benefit, and Landlord shall have no duty to see that such plans and specifications/Construction Drawings or construction comply with applicable laws, codes, rules and regulations.

(e) Tenant shall provide Landlord with the identities and mailing addresses of all persons performing work or supplying materials, prior to beginning such construction, and Landlord may post on and about the Premises notices of non-responsibility pursuant to applicable law. Tenant shall furnish security or make other arrangements satisfactory to Landlord to assure payment for the completion of all work free and clear of liens and shall provide certificates of insurance for worker's compensation and other coverage in amounts and from an insurance company satisfactory to Landlord protecting Landlord against liability for personal injury or property damage during construction. Upon completion of any Tenant-Made Alterations, Tenant shall deliver to Landlord sworn statements setting forth the names of all contractors and subcontractors who did work on the Tenant-Made Alterations and final lien waivers from all such contractors and subcontractors.

(f) Upon surrender of the Premises, all Tenant-Made Alterations and any leasehold improvements constructed by Landlord or Tenant shall remain on the Premises as Landlord's property, except to the extent Landlord requires removal at Tenant's expense of any such items or Landlord and Tenant have otherwise agreed in writing in connection with Landlord's consent to any Tenant-Made Alterations. Upon Tenant's written request, Landlord shall provide Tenant, at the time of Tenant's request for approval of Tenant-Made Alterations, a list of which Tenant-Made Alterations Landlord will require Tenant to remove upon surrender of the Premises. Tenant shall repair any damage caused by the removal of such Tenant-Made Alterations upon surrender of the Premises.

(g) Notwithstanding the foregoing, Tenant, at its own cost and expense and without Landlord's prior approval, may erect such shelves, racking, bins, machinery and trade fixtures (collectively "Trade Fixtures") in the ordinary course of its business provided that such items do not alter the basic character of the Premises, do not overload or damage the Premises, and may be removed without injury to the Premises, and the construction, erection, and installation thereof complies with all Legal Requirements and with Landlord's requirements set forth above. Tenant shall remove its Trade Fixtures and shall repair any damage caused by such removal upon surrender of the Premises.

13. **Signs.** Tenant shall not make any changes to the exterior of the Premises, install any exterior lights, decorations, balloons, flags, pennants, banners, or painting, or erect or install any signs, windows or door lettering, placards, decorations, or advertising media of any type which can be viewed from the exterior of the Premises, without Landlord's prior written consent, which consent may be withheld in Landlord's sole discretion. Attached as Exhibit "D" is the signage criteria, and Tenant shall be permitted to install, at Tenant's sole cost and expense, Tenant's proposed signage, provided it complies with such signage criteria and all Legal Requirements. Upon surrender or vacation of the Premises, Tenant shall have removed all signs and repair, paint, and/or replace the building facia surface to which its signs are attached. Tenant shall obtain all applicable governmental permits and approvals for sign and exterior treatments. All signs, decorations, advertising media, blinds, draperies and other window treatment or bars or other security installations visible from outside the Premises shall be subject to Landlord's approval and conform in all respects to Landlord's requirements.

14. **Parking.** Tenant shall be entitled to park in common with other tenants of the Project in those areas designated for nonreserved parking. Landlord may allocate parking spaces among Tenant and other tenants in the Project if Landlord reasonably determines that such parking facilities are becoming crowded. Landlord shall not be responsible for enforcing Tenant's parking rights against any third parties.

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**15. Restoration.** If at any time during the Lease Term the Premises are damaged by a fire or other casualty, Landlord shall notify Tenant within 60 days after such damage as to the amount of time Landlord reasonably estimates it will take to restore the Premises. If the restoration time is estimated to exceed 6 months, either Landlord or Tenant may elect to terminate this Lease upon notice to the other party given no later than 30 days after Landlord's notice. If neither party elects to terminate this Lease or if Landlord estimates that restoration will take 6 months or less, then, subject to receipt of sufficient insurance proceeds, Landlord shall promptly restore the Premises excluding the improvements installed by Tenant or by Landlord and paid by Tenant, subject to delays arising from the collection of insurance proceeds or from Force Majeure events. Tenant at Tenant's expense shall promptly perform, subject to delays arising from the collection of insurance proceeds, or from Force Majeure events (as defined in Paragraph 33), all repairs or restoration not required to be done by Landlord and shall promptly re-enter the Premises and commence doing business in accordance with this Lease. Notwithstanding the foregoing, either party may terminate this Lease if the Premises are damaged during the last year of the Lease Term and Landlord reasonably estimates that it will take more than one month to repair such damage. Base Rent and Operating Expenses shall be abated for the period of repair and restoration commencing on the date of such casualty event in the proportion which the area of the Premises, if any, which is not usable by Tenant bears to the total area of the Premises. Such abatement shall be the sole remedy of Tenant, and except as provided herein, Tenant waives any right to terminate the Lease by reason of damage or casualty loss.

Notwithstanding anything contained in the Lease to the contrary, to the extent the damage to the Project is attributable to Tenant, Tenant shall pay to Landlord with respect to any damage to the Project an amount of the commercially reasonable deductible under Landlord's insurance policy, not to exceed \$10,000.00, within 30 days after presentment of Landlord's invoice.

**16. Condemnation.** If any part of the Premises or the Project should be taken for any public or quasi-public use under governmental law, ordinance, or regulation, or by right of eminent domain, or by private purchase in lieu thereof (a "Taking" or "Taken"), and the Taking would materially interfere with or impair Landlord's ownership or operation of the Project, then upon written notice by Landlord this Lease shall terminate and Base Rent shall be apportioned as of said date. In the event (i) more than thirty percent (30%) of the Premises is involved in a Taking as described in this Paragraph 16, or (ii) more than thirty percent (30%) of the parking spaces for the Building are Taken and not replaced by Landlord with other parking spaces in the Project proximate to the Building, and in either case the Taking, in Tenant's reasonable judgment, would materially interfere with or impair Tenant's operations at the Premises, then in any such event Tenant shall have the right to terminate this Lease by giving written notice of termination to Landlord within thirty (30) days of such Taking. If part of the Premises shall be Taken, and this Lease is not terminated as provided above, the Base Rent payable hereunder during the unexpired Lease Term shall be reduced to such extent as may be fair and reasonable under the circumstances. In the event of any such Taking, Landlord shall be entitled to receive the entire price or award from any such Taking without any payment to Tenant, and Tenant hereby assigns to Landlord Tenant's interest, if any, in such award. Tenant shall have the right, to the extent that same shall not diminish Landlord's award, to make a separate claim against the condemning authority (but not Landlord) for such compensation as may be separately awarded or recoverable by Tenant for moving expenses and damage to Tenant's Trade Fixtures, if a separate award for such items is made to Tenant.

**17. Assignment and Subletting.** Without Landlord's prior written consent, which shall not be unreasonably withheld conditioned or delayed, Tenant shall not assign this Lease or sublease the Premises or any part thereof or mortgage, pledge, or hypothecate its leasehold interest or grant any concession or license within the Premises and any attempt to do any of the foregoing shall be void and of no effect. It shall be reasonable for the Landlord to withhold, delay or condition its consent, where required, to any assignment or sublease in any of the following instances: (i) the assignee or sublessee does not have a net worth calculated according to generally accepted accounting principles at least equal to the greater of the net worth of Tenant immediately prior to such assignment or sublease or the net worth of the Tenant at the time it executed the Lease; (ii) occupancy of the Premises by the assignee or sublessee would, in Landlord's opinion, violate any agreement binding upon Landlord or the Project with regard to the identity of tenants, usage in the Project, or similar matters; (iii) the identity or business reputation of the assignee or sublessee will, in the good faith judgment of Landlord, tend to damage the goodwill or reputation of the Project; (iv) the assignment or sublease is to another tenant in the Project and is at rates which are below those charged by Landlord for comparable space in the Project; or (v) in the case of a sublease, the subtenant has not acknowledged that the Lease controls over any inconsistent provision in the sublease. The foregoing criteria shall not exclude any other reasonable basis for Landlord to refuse its consent to such assignment or sublease. Any approved assignment or sublease shall be expressly subject to the terms and conditions of this Lease. Tenant shall provide to Landlord all information concerning the assignee or sublessee as Landlord may reasonably request. Landlord may revoke its consent immediately

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and without notice if, as of the effective date of the assignment or sublease, there has occurred and is continuing any default under the Lease. For purposes of this paragraph, a transfer of the ownership interests controlling Tenant shall be deemed an assignment of this Lease unless such ownership interests are publicly traded. Notwithstanding the above, Tenant may assign or sublet the Premises, or any part thereof, to any entity controlling Tenant, controlled by Tenant or under common control with Tenant (a "Tenant Affiliate"), without the prior written consent of Landlord. Tenant shall reimburse Landlord for all of Landlord's reasonable expenses in connection with any assignment or sublease not to exceed \$1,500.00. This Lease shall be binding upon Tenant and its successors and permitted assigns. Upon Landlord's receipt of Tenant's written notice of a desire to assign or sublet the Premises, or any part thereof (other than to a Tenant Affiliate), Landlord may, by giving written notice to Tenant within 30 days after receipt of Tenant's notice, terminate this Lease with respect to the space described in Tenant's notice, as of the date specified in Tenant's notice for the commencement of the proposed assignment or sublease. Tenant may withdraw its notice to sublease or assign by notifying Landlord within 10 days after Landlord has given Tenant notice of such termination, in which case the Lease shall not terminate but shall continue.

Notwithstanding any assignment or subletting, Tenant and any guarantor or surety of Tenant's obligations under this Lease shall at all times remain fully responsible and liable for the payment of the rent and for compliance with all of Tenant's other obligations under this Lease (regardless of whether Landlord's approval has been obtained for any such assignments or sublettings). In the event that the rent due and payable by a sublessee or assignee (or a combination of the rental payable under such sublease or assignment plus any bonus or other consideration therefor or incident thereto) exceeds the rental payable under this Lease, then Tenant shall be bound and obligated to pay Landlord as additional rent hereunder all such excess rental and other excess consideration within 10 days following receipt thereof by Tenant; provided in the event of a sublease which is less than 100% of the Premises such excess rental and other consideration shall be applied on a square foot basis.

If this Lease be assigned or if the Premises be subleased (whether in whole or in part) or in the event of the mortgage, pledge, or hypothecation of Tenant's leasehold interest or grant of any concession or license within the Premises or if the Premises be occupied in whole or in part by anyone other than Tenant, then upon a default by Tenant hereunder Landlord may collect rent from the assignee, sublessee, mortgagee, pledgee, party to whom the leasehold interest was hypothecated, concessionee or licensee or other occupant and, except to the extent set forth in the preceding paragraph, apply the amount collected to the next rent payable hereunder; and all such rentals collected by Tenant shall be held in trust for Landlord and immediately forwarded to Landlord. No such transaction or collection of rent or application thereof by Landlord, however, shall be deemed a waiver of these provisions or a release of Tenant from the further performance by Tenant of its covenants, duties, or obligations hereunder.

**18. Indemnification.** Except for the intentional misconduct or negligence of Landlord, its agents, employees or contractors, and to the extent permitted by law, Tenant agrees to indemnify, defend and hold harmless Landlord, and Landlord's agents, employees and contractors, from and against any and all losses, liabilities, damages, costs and expenses (including attorneys' fees) resulting from claims by third parties for injuries to any person and damage to or theft or misappropriation or loss of property occurring in or about the Project and arising from the use and occupancy of the Premises or from any activity, work, or thing done, permitted or suffered by Tenant in or about the Premises or due to any other act or omission of Tenant, its subtenants, assignees, invitees, employees, contractors and agents. The furnishing of insurance required hereunder shall not be deemed to limit Tenant's obligations under this Paragraph 18.

**19. Inspection and Access.** With 24-hours' notice (except in the event of an emergency) to Tenant and with a Tenant representative as an accompaniment, Landlord and its agents, representatives, and contractors may enter the Premises at any reasonable time to inspect the Premises and to make such repairs as may be required or permitted pursuant to this Lease and for any other business purpose. With the accompaniment of a Tenant representative, Landlord and Landlord's representatives may enter the Premises during business hours for the purpose of showing the Premises to prospective purchasers and, during the last year of the Lease Term, to prospective tenants. Landlord may erect a suitable sign on the Premises stating the Premises are available to let or that the Project is available for sale. Landlord may grant easements, make public dedications, designate and modify common areas and create restrictions on or about the Premises, provided that no such easement, dedication, designation, modification or restriction materially interferes with Tenant's use or occupancy of the Premises. At Landlord's request, Tenant shall execute such instruments as may be necessary for such easements, dedications or restrictions.

**20. Quiet Enjoyment.** If Tenant shall perform all of the covenants and agreements herein required to be performed by Tenant, Tenant shall, subject to the terms of this Lease, at all times during the Lease Term, have peaceful and quiet enjoyment of the Premises against any person claiming by, through or under Landlord.

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21. **Surrender.** Upon termination of the Lease Term or earlier termination of Tenant's right of possession, Tenant shall surrender the Premises to Landlord in the same condition as received ordinary wear and tear, casualty loss and condemnation covered by Paragraphs 15 and 16 excepted and otherwise in accordance with the Move Out Conditions Addendum attached hereto. Without limiting the foregoing, Tenant shall remove any odor which may exist in the Premises resulting from Tenant's occupancy of the Premises upon the termination of the Lease Term or earlier termination of Tenant's right of possession. Any Trade Fixtures, Tenant-Made Alterations and property not so removed by Tenant as permitted or required herein shall be deemed abandoned and may be stored, removed, and disposed of by Landlord at Tenant's expense, and Tenant waives all claims against Landlord for any damages resulting from Landlord's retention and disposition of such property. All obligations of Tenant hereunder not fully performed as of the termination of the Lease Term shall survive the termination of the Lease Term, including without limitation, indemnity obligations, payment obligations with respect to Operating Expenses and obligations concerning the condition and repair of the Premises.

22. **Holding Over.** If Tenant retains possession of the Premises after the termination of the Lease Term, unless otherwise agreed in writing, such possession shall be subject to immediate termination by Landlord at any time, and all of the other terms and provisions of this Lease (excluding any expansion or renewal option or other similar right or option) shall be applicable during such holdover period, except that Tenant shall pay Landlord from time to time, upon demand, as Base Rent for the holdover period, an amount equal to 150% of the Base Rent in effect on the termination date, computed on a monthly basis for each month or part thereof during such holding over. All other payments shall continue under the terms of this Lease. In addition, Tenant shall be liable for all damages incurred by Landlord as a result of such holding over. No holding over by Tenant, whether with or without consent of Landlord, shall operate to extend this Lease except as otherwise expressly provided, and this Paragraph 22 shall not be construed as consent for Tenant to retain possession of the Premises. For purposes of this Paragraph 22, "possession of the Premises" shall continue until, among other things, Tenant has delivered all keys to the Premises to Landlord, Landlord has complete and total dominion and control over the Premises, and Tenant has completely fulfilled all obligations required of it upon termination of the Lease as set forth in this Lease, including, without limitation, those concerning the condition and repair of the Premises.

23. **Events of Default.** Each of the following events shall be an event of default ("Event of Default") by Tenant under this Lease:

(i) Tenant shall fail to pay any installment of Base Rent or any other payment required herein when due, and such failure shall continue for a period of 5 days after written notice from Landlord to Tenant that such payment was due; provided, however, that Landlord shall not be obligated to provide written notice of such failure more than 2 times in any consecutive 12-month period, and the failure of Tenant to pay any third or subsequent installment of Base Rent or any other payment required herein when due in any consecutive 12-month period shall constitute an Event of Default by Tenant under this Lease without the requirement of notice or opportunity to cure; provided, however, that any such notice shall be in lieu of, and not in addition to, any notice required under applicable law.

(ii) Tenant or any guarantor or surety of Tenant's obligations hereunder shall (A) make a general assignment for the benefit of creditors; (B) commence any case, proceeding or other action seeking to have an order for relief entered on its behalf as a debtor or to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or of any substantial part of its property (collectively a "proceeding for relief"); (C) become the subject of any proceeding for relief which is not dismissed within 60 days of its filing or entry; or (D) die or suffer a legal disability (if Tenant, guarantor, or surety is an individual) or be dissolved or otherwise fail to maintain its legal existence (if Tenant, guarantor or surety is a corporation, partnership or other entity).

(iii) Any insurance required to be maintained by Tenant pursuant to this Lease shall be cancelled or terminated or shall expire or shall be reduced or materially changed, except, in each case, as permitted in this Lease.

(iv) Tenant shall not occupy or shall vacate the Premises whether or not Tenant is in monetary or other default under this Lease. Tenant's vacating of the Premises shall not constitute an Event of Default if, prior to vacating the Premises, Tenant has made arrangements reasonably acceptable to Landlord to (a) ensure that Tenant's insurance for the Premises will not be voided or cancelled with respect to the Premises as a result of such vacancy, (b) ensure that the Premises are secured and not subject to vandalism, and (c) ensure that the Premises will be properly maintained after such vacation, including, but not limited to, keeping the heating, ventilation and cooling systems maintenance contracts required by this Lease in full force and effect and maintaining the utility services. Tenant shall inspect the Premises at least once each month and report monthly in writing to Landlord on the condition of the Premises.

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(v) Tenant shall attempt or there shall occur any assignment, subleasing or other transfer of Tenant's interest in or with respect to this Lease except as otherwise permitted in this Lease.

(vi) Tenant shall fail to discharge any lien placed upon the Premises in violation of this Lease within 30 days after receiving notice from any source that any such lien or encumbrance is filed against the Premises.

(vii) Tenant shall fail to comply with any provision of this Lease other than those specifically referred to in this Paragraph 23, and except as otherwise expressly provided herein, such default shall continue for more than 30 days after Landlord shall have given Tenant written notice of such default (unless such performance will, due to the nature of the obligation, require a period of time in excess of 30 days, then after such period of time as is reasonably necessary if Tenant has made diligent efforts to cure such default within the thirty (30) day period described therein, and thereafter proceeds continuously and diligently to cure such default within a commercially reasonable time) (said notice being in lieu of, and not in addition to, any notice required as a prerequisite to a forcible entry and detainer or similar action for possession of the Premises).

**24. Landlord's Remedies.** Upon each occurrence of an Event of Default and so long as such Event of Default shall be continuing, Landlord may at any time thereafter at its election: terminate this Lease or Tenant's right of possession, (but Tenant shall remain liable as hereinafter provided) and/or pursue any other remedies at law or in equity. Upon the termination of this Lease or termination of Tenant's right of possession, it shall be lawful for Landlord, without formal demand or notice of any kind, to re-enter the Premises by summary dispossession proceedings or any other action or proceeding authorized by law and to remove Tenant and all persons and property therefrom. If Landlord re-enters the Premises, Landlord shall have the right to keep in place and use, or remove and store, all of the furniture, fixtures and equipment at the Premises.

If Landlord terminates this Lease, Landlord may recover from Tenant the sum of: all Base Rent and all other amounts accrued hereunder to the date of such termination; the value of the Base Rent for any periods of abated Monthly Base Rent based on the Monthly Base Rent amount that immediately follows such period of abatement; the cost of reletting the whole or any part of the Premises, including without limitation brokerage fees and/or leasing commissions incurred by Landlord, and costs of removing and storing Tenant's or any other occupant's property, repairing, altering, remodeling, or otherwise putting the Premises into condition acceptable to a new tenant or tenants, and all reasonable expenses incurred by Landlord in pursuing its remedies, including reasonable attorneys' fees and court costs; and the excess of the then present value of the Base Rent and other amounts payable by Tenant under this Lease as would otherwise have been required to be paid by Tenant to Landlord during the period following the termination of this Lease measured from the date of such termination to the expiration date stated in this Lease, over the present value of any net amounts which Tenant establishes Landlord can reasonably expect to recover by reletting the Premises for such period, taking into consideration the availability of acceptable tenants and other market conditions affecting leasing. Such present values shall be calculated at a discount rate equal to the 90-day U.S. Treasury bill rate at the date of such termination.

If Landlord terminates Tenant's right to possession (but not this Lease) without terminating the Lease after an Event of Default, Landlord shall use commercially reasonable efforts to relet the Premises without thereby releasing Tenant from any liability hereunder and without demand or notice of any kind to Tenant; provided, however, (a) Landlord shall not be obligated to accept any tenant proposed by Tenant, (b) Landlord shall have the right to lease any other space controlled by Landlord first, and (c) any proposed tenant shall meet all of Landlord's leasing criteria. For the purpose of such reletting Landlord is authorized to make any repairs, changes, alterations, or additions in or to the Premises as Landlord deems reasonably necessary or desirable. If the Premises are not relet, then Tenant shall pay to Landlord as damages a sum equal to the amount of the rental reserved in this Lease for such period or periods, plus the cost of recovering possession of the Premises (including attorneys' fees and costs of suit), the unpaid Base Rent and other amounts accrued hereunder at the time of repossession, and the costs incurred in any attempt by Landlord to relet the Premises. If the Premises are relet and a sufficient sum shall not be realized from such reletting [after first deducting therefrom, for retention by Landlord, the unpaid Base Rent and other amounts accrued hereunder at the time of reletting, the cost of recovering possession (including attorneys' fees and costs of suit), all of the costs and expense of repairs, changes, alterations, and additions, the expense of such reletting (including without limitation brokerage fees and leasing commissions) and the cost of collection of the rent accruing therefrom] to satisfy the rent provided for in this Lease to be paid, then Tenant shall immediately satisfy and pay any such deficiency.

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Any such payments due Landlord shall be made upon demand therefor from time to time and Tenant agrees that Landlord may file suit to recover any sums falling due from time to time. Notwithstanding any such reletting without termination, Landlord may at any time thereafter elect in writing to terminate this Lease for such previous breach.

Exercise by Landlord of any one or more remedies hereunder granted or otherwise available shall not be deemed to be an acceptance of surrender of the Premises and/or a termination of this Lease by Landlord, whether by agreement or by operation of law, it being understood that such surrender and/or termination can be effected only by the written agreement of Landlord and Tenant. Any law, usage, or custom to the contrary notwithstanding, Landlord shall have the right at all times to enforce the provisions of this Lease in strict accordance with the terms hereof; and the failure of Landlord at any time to enforce its rights under this Lease strictly in accordance with same shall not be construed as having created a custom in any way or manner contrary to the specific terms, provisions, and covenants of this Lease or as having modified the same. Tenant and Landlord further agree that forbearance or waiver by Landlord to enforce its rights pursuant to this Lease or at law or in equity, shall not be a waiver of Landlord's right to enforce one or more of its rights in connection with any subsequent default. A receipt by Landlord of rent or other payment with knowledge of the breach of any covenant hereof shall not be deemed a waiver of such breach, and no waiver by Landlord of any provision of this Lease shall be deemed to have been made unless expressed in writing and signed by Landlord. To the greatest extent permitted by law, Tenant waives the service of notice of Landlord's intention to re-enter as provided for in any statute, or to institute legal proceedings to that end, and also waives all right of redemption in case Tenant shall be dispossessed by a judgment or by warrant of any court or judge. The terms "enter," "re-enter," "entry" or "re-entry," as used in this Lease, are not restricted to their technical legal meanings. Any reletting of the Premises shall be on such terms and conditions as Landlord in its sole discretion may determine (including without limitation a term different than the remaining Lease Term, rental concessions, alterations and repair of the Premises, lease of less than the entire Premises to any tenant and leasing any or all other portions of the Project before reletting the Premises). Except as otherwise provided by law, Landlord shall not be liable, nor shall Tenant's obligations hereunder be diminished because of, Landlord's failure to relet the Premises or collect rent due in respect of such reletting.

**25. Tenant's Remedies/Limitation of Liability.** Landlord shall not be in default hereunder unless Landlord fails to perform any of its obligations hereunder within 30 days after written notice from Tenant specifying such failure (unless such performance will, due to the nature of the obligation, require a period of time in excess of 30 days, then after such period of time as is reasonably necessary). All obligations of Landlord hereunder shall be construed as covenants, not conditions; and, except as may be otherwise expressly provided in this Lease, Tenant may not terminate this Lease for breach of Landlord's obligations hereunder. All obligations of Landlord under this Lease will be binding upon Landlord only during the period of its ownership of the Premises and not thereafter. The term "Landlord" in this Lease shall mean only the owner, for the time being of the Premises, and in the event of the transfer by such owner of its interest in the Premises, such owner shall thereupon be released and discharged from all obligations of Landlord thereafter accruing, but such obligations shall be binding during the Lease Term upon each new owner for the duration of such owner's ownership. Any liability of Landlord under this Lease shall be limited solely to its interest in the Project, and in no event shall any personal liability be asserted against Landlord in connection with this Lease nor shall any recourse be had to any other property or assets of Landlord.

**26. Landlord's Lien/Security Interest.** Intentionally Deleted.

**27. Subordination.** This Lease and Tenant's interest and rights hereunder are and shall be subject and subordinate at all times to the lien of any first mortgage, now existing or hereafter created on or against the Project or the Premises, and all amendments, restatements, renewals, modifications, consolidations, refinancing, assignments and extensions thereof, without the necessity of any further instrument or act on the part of Tenant and Tenant agrees to attorn to any such holder thereof, provided that Landlord and Landlord's mortgagee, simultaneously with the execution of this Lease, execute a commercially reasonable subordination, non-disturbance and attornment agreement. Notwithstanding the foregoing, any such holder may at any time subordinate its mortgage to this Lease, without Tenant's consent, by notice in writing to Tenant, and thereupon this Lease shall be deemed prior to such mortgage without regard to their respective dates of execution, delivery or recording and in that event such holder shall have the same rights with respect to this Lease as though this Lease had been executed prior to the execution, delivery and recording of such mortgage and had been assigned to such holder. The term "mortgage" whenever used in this Lease shall be deemed to include deeds of trust, security assignments and any other encumbrances, and any reference to the "holder" of a mortgage shall be deemed to include the beneficiary under a deed of trust.

**28. Mechanic's Liens.** Tenant has no express or implied authority to create or place any lien or encumbrance of any kind upon, or in any manner to bind the interest of Landlord or Tenant in, the Premises or to charge the rentals payable hereunder for any claim in favor of any person dealing with

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Tenant, including those who may furnish materials or perform labor for any construction or repairs. Tenant covenants and agrees that it will pay or cause to be paid all sums legally due and payable by it on account of any labor performed or materials furnished in connection with any work performed on the Premises and that it will save and hold Landlord harmless from all loss, cost or expense based on or arising out of asserted claims or liens against the leasehold estate or against the interest of Landlord in the Premises or under this Lease. Tenant shall give Landlord immediate written notice of the placing of any lien or encumbrance against the Premises and cause such lien or encumbrance to be discharged within 30 days of Tenant obtaining knowledge from any source of the filing or recording thereof; provided, however, Tenant may contest such liens or encumbrances as long as such contest prevents foreclosure of the lien or encumbrance and Tenant causes such lien or encumbrance to be bonded or insured over in a manner satisfactory to Landlord within such 20 day period.

**29. Estoppel Certificates.** Each party agrees, from time to time, within 10 days after request of the requesting party, to execute and deliver to the requesting party, or the requesting party's designee, any estoppel certificate requested by the other, stating, if true, that this Lease is in full force and effect, the date to which rent has been paid, that the requesting party is not in default hereunder (or specifying in detail the nature of the requesting party's default), the termination date of this Lease and such other matters pertaining to this Lease as may be reasonably requested by the requesting party. Each party's obligation to furnish each estoppel certificate in a timely fashion is a material inducement for each party's execution of this Lease. No cure or grace period provided in this Lease shall apply to either party's obligations to timely deliver an estoppel certificate.

**30. Environmental Requirements.** Except for Hazardous Material contained in products used by Tenant in de minimis quantities for ordinary cleaning and office purposes, and except for propane used in Tenant's forklifts in the normal course of its business, and except for Hazardous Materials contained in products stored and/or distributed during Tenant's normal course of business in their original, sealed, and unopened containers, Tenant shall not permit or cause any party to bring any Hazardous Material upon the Premises or transport, store, use, generate, manufacture or release any Hazardous Material in or about the Premises without Landlord's prior written consent. Tenant, at its sole cost and expense, shall operate its business in the Premises in strict compliance with all Environmental Requirements and shall remediate in a manner satisfactory to Landlord any Hazardous Materials released on or from the Project by Tenant, its agents, employees, contractors, subcontractors or invitees. Tenant shall complete and certify to disclosure statements as requested by Landlord from time to time relating to Tenant's transportation, storage, use, generation, manufacture or release of Hazardous Materials on the Premises. The term "Environmental Requirements" means all applicable present and future statutes, regulations, ordinances, rules, codes, judgments, orders or other similar enactments of any governmental authority or agency regulating or relating to health, safety, or environmental conditions on, under, or about the Premises or the environment, including without limitation, the following: the Comprehensive Environmental Response, Compensation and Liability Act; the Resource Conservation and Recovery Act; and all state and local counterparts thereto, and any regulations or policies promulgated or issued thereunder. The term "Hazardous Materials" means and includes any substance, material, waste, pollutant, or contaminant listed or defined as hazardous or toxic, under any Environmental Requirements, asbestos and petroleum, including crude oil or any fraction thereof, natural gas liquids, liquefied natural gas, or synthetic gas usable for fuel (or mixtures of natural gas and such synthetic gas). As defined in Environmental Requirements, Tenant is and shall be deemed to be the "operator" of Tenant's "facility" and the "owner" of all Hazardous Materials brought on the Premises by Tenant, its agents, employees, contractors or invitees, and the wastes, by-products, or residues generated, resulting, or produced therefrom. No cure or grace period provided in this Lease shall apply to Tenant's obligations to comply with the terms and conditions of this Paragraph 30.

Notwithstanding anything to the contrary in this Paragraph 30, Tenant shall have no liability of any kind to Landlord as to Hazardous Materials (i) on the Premises prior to the date that Tenant accesses the Premises under the license granted in Section 37(q) or (ii) caused or permitted by (1) Landlord, its agents, employees, contractors or invitees; or (2) any other tenants in the Project or their agents, employees, contractors, subcontractors, assignees or invitees.

Tenant shall indemnify, defend, and hold Landlord harmless from and against any and all losses (including, without limitation, diminution in value of the Premises or the Project and loss of rental income from the Project), claims, demands, actions, suits, damages (including, without limitation, punitive damages), expenses (including, without limitation, remediation, removal, repair, corrective action, or cleanup expenses), and costs (including, without limitation, actual attorneys' fees, consultant fees or expert fees and including, without limitation, removal or management of any asbestos brought into the property or disturbed in breach of the requirements of this Paragraph 30, regardless of whether such removal or management is required by law) which are brought or recoverable against, or suffered or incurred by Landlord as a result of any release of Hazardous Materials for which Tenant is obligated to remediate as provided above or any other breach of the requirements under this Paragraph 30 by Tenant, its agents, employees, contractors, subcontractors, assignees or invitees, regardless of whether Tenant had knowledge of such noncompliance. The obligations of Tenant under this Paragraph 30 shall survive any termination of this Lease.

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Landlord shall have access to, and a right to perform inspections and tests of, the Premises to determine Tenant's compliance with Environmental Requirements, its obligations under this Paragraph 30, or the environmental condition of the Premises. Access shall be granted to Landlord upon Landlord's prior notice to Tenant and at such times so as to minimize, so far as may be reasonable under the circumstances, any disturbance to Tenant's operations. Such inspections and tests shall be conducted at Landlord's expense, unless such inspections or tests reveal that Tenant has not complied with any Environmental Requirement, in which case Tenant shall reimburse Landlord for the reasonable cost of such inspection and tests. Landlord's receipt of or satisfaction with any environmental assessment in no way waives any rights that Landlord holds against Tenant.

31. **Rules and Regulations.** Tenant shall, at all times during the Lease Term and any extension thereof, comply with all reasonable rules and regulations at any time or from time to time established by Landlord covering use of the Premises and the Project. The current Project rules and regulations are attached hereto as Exhibit E. In the event of any conflict between said rules and regulations and other provisions of this Lease, the other terms and provisions of this Lease shall control. Landlord shall not have any liability or obligation for the breach of any rules or regulations by other tenants in the Project.

32. **Security Service.** Tenant acknowledges and agrees that, while Landlord may patrol the Project, Landlord is not providing any security services with respect to the Premises and that Landlord shall not be liable to Tenant for, and Tenant waives any claim against Landlord with respect to, any loss by theft or any other damage suffered or incurred by Tenant in connection with any unauthorized entry into the Premises or any other breach of security with respect to the Premises.

33. **Force Majeure.** Except for monetary obligations, neither Landlord nor Tenant shall be held responsible for delays in the performance of its obligations hereunder when caused by strikes, lockouts, labor disputes, acts of God, inability to obtain labor or materials or reasonable substitutes therefor, governmental restrictions, governmental regulations, governmental controls, delay in issuance of permits, enemy or hostile governmental action, civil commotion, fire or other casualty, and other causes beyond the reasonable control of Landlord or Tenant, as the case may be ("Force Majeure").

34. **Entire Agreement.** This Lease constitutes the complete agreement of Landlord and Tenant with respect to the subject matter hereof. No representations, inducements, promises or agreements, oral or written, have been made by Landlord or Tenant, or anyone acting on behalf of Landlord or Tenant, which are not contained herein, and any prior agreements, promises, negotiations, or representations are superseded by this Lease. This Lease may not be amended except by an instrument in writing signed by both parties hereto.

35. **Severability.** If any clause or provision of this Lease is illegal, invalid or unenforceable under present or future laws, then and in that event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby. It is also the intention of the parties to this Lease that in lieu of each clause or provision of this Lease that is illegal, invalid or unenforceable, there be added, as a part of this Lease, a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable.

36. **Brokers.** Tenant and Landlord represent and warrant to the other that it has dealt with no broker, agent or other person in connection with this transaction and that no broker, agent or other person brought about this transaction, other than the broker, if any, set forth on the first page of this Lease, and each party agrees to indemnify and hold the other harmless from and against any claims by any other broker, agent or other person claiming a commission or other form of compensation by virtue of having dealt with such party with regard to this leasing transaction.

37. **Miscellaneous.** (a) Any payments or charges due from Tenant to Landlord hereunder shall be considered rent for all purposes of this Lease.

(b) If and when included within the term "Tenant," as used in this instrument, there is more than one person, firm or corporation, each shall be jointly and severally liable for the obligations of Tenant.

(c) All notices required or permitted to be given under this Lease shall be in writing and shall be sent by registered or certified mail, return receipt requested, or by a reputable national overnight courier service, postage prepaid, or by hand delivery addressed to Landlord at 4330 Gaines Ranch Loop, Suite 100, Austin, Texas 78735, with a copy sent to Landlord at 4545 Airport Way, Denver, Colorado 80239, Attention: General Counsel, and to Tenant at 460 Ward Drive Santa Barbara California 93111 with a copy sent to Tenant at the Premises. Either party may by notice given aforesaid change its address for all subsequent notices or add an additional party to be copied on all subsequent notices. Except where otherwise expressly provided to the contrary, notice shall be deemed given upon delivery.

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(d) Except as otherwise expressly provided in this Lease or as otherwise required by law, Landlord retains the absolute right to withhold any consent or approval.

(e) At Landlord's request from time to time Tenant shall furnish Landlord with true and complete copies of its most recent annual and quarterly financial statements prepared by Tenant or Tenant's accountants and any other financial information or summaries that Tenant typically provides to its lenders or shareholders.

(f) Neither this Lease nor a memorandum of lease shall be filed by or on behalf of Tenant in any public record. Landlord may prepare and file, and upon request by Landlord Tenant will execute, a memorandum of lease.

(g) The normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Lease or any exhibits or amendments hereto.

(h) The submission by Landlord to Tenant of this Lease shall have no binding force or effect, shall not constitute an option for the leasing of the Premises, nor confer any right or impose any obligations upon either party until execution of this Lease by both parties.

(i) Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires. The captions inserted in this Lease are for convenience only and in no way define, limit or otherwise describe the scope or intent of this Lease, or any provision hereof, or in any way affect the interpretation of this Lease.

(j) Any amount not paid by Tenant within 5 days after its due date in accordance with the terms of this Lease shall bear interest from such due date until paid in full at the lesser of the highest rate permitted by applicable law or 15 percent per year. It is expressly the intent of Landlord and Tenant at all times to comply with applicable law governing the maximum rate or amount of any interest payable on or in connection with this Lease. If applicable law is ever judicially interpreted so as to render usurious any interest called for under this Lease, or contracted for, charged, taken, reserved, or received with respect to this Lease, then it is Landlord's and Tenant's express intent that all excess amounts theretofore collected by Landlord be credited on the applicable obligation (or, if the obligation has been or would thereby be paid in full, refunded to Tenant), and the provisions of this Lease immediately shall be deemed reformed and the amounts thereafter collectible hereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder.

(k) Construction and interpretation of this Lease shall be governed by the laws of the state in which the Project is located, excluding any principles of conflicts of laws.

(l) Time is of the essence as to the performance of Tenant's and Landlord's obligations under this Lease.

(m) All exhibits and addenda attached hereto are hereby incorporated into this Lease and made a part hereof. In the event of any conflict between such exhibits or addenda and the terms of this Lease, such exhibits or addenda shall control.

(n) In the event either party hereto initiates litigation to enforce the terms and provisions of this Lease, the non-prevailing party in such action shall reimburse the prevailing party for its reasonable attorney's fees, filing fees, and court costs.

(o) Tenant agrees and understands that Landlord shall have the right (provided that the exercise of Landlord's rights does not adversely affect Tenant's use and occupancy of the Premises or subject Tenant to additional costs), without Tenant's consent, to place a solar electric generating system on the roof of the Building or enter into a lease for the roof of the Building whereby such roof tenant shall have the right to install a solar electric generating system on the roof of the Building.

(p) This Lease may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of such counterparts shall constitute one Lease. Execution copies of this Lease may be delivered by facsimile or email, and the parties hereto agree to accept and be bound by facsimile signatures or scanned signatures transmitted via email hereto, which signatures shall be considered as original signatures with the transmitted Lease having the same binding effect as an original

signature on an original Lease. At the request of either party, any facsimile document or scanned document transmitted via email is to be re-executed in original form by the party who executed the original facsimile document or scanned document. Neither party may raise the use of a facsimile machine or scanned document or the fact that any signature was transmitted through the use of a facsimile machine or email as a defense to the enforcement of this Lease.

(q) Tenant is hereby granted a license by Landlord to (1) have access to enter the Premises prior to the Commencement Date to allow Tenant, at Tenant's expense and in its sole discretion, to prepare the Premises for occupancy including, but not limited to, commencing construction of the Initial Finish-Out and (ii) for Tenant to store certain of its equipment in the area next to the shipping docks, subject to applicable ordinances and building codes governing Tenant's right to occupy or perform in the Premises, and so long as Tenant has provided Landlord with the Security Deposit, the first month's Base Rent, and certificates of insurance satisfying the insurance requirements of Paragraph 9. During such early occupancy period prior to the Commencement Date, Tenant shall be bound by its obligations under the Lease, but shall not be obligated to pay the Monthly Base Rent or Operating Expenses payable by Tenant to Landlord as set forth in the Lease. Tenant shall not interfere with the completion of construction or cause any labor dispute as a result of such installations, and provided further that Tenant does hereby agree to indemnify, defend, and hold Landlord harmless from any loss or damage to such property, and all liability, loss, or damage arising from any injury to the Project or the property of Landlord, its contractors, subcontractors, or materialmen, and any death or personal injury to any person or persons arising out of such installations, unless any such loss, damage, liability, death, or personal injury was caused by Landlord's negligence. Delay in putting Tenant in possession of the Premises shall not serve to extend the term of this Lease or to make Landlord liable for any damages arising therefrom.

(r) Landlord acknowledges that Tenant is seeking certain economic grants from the City of Austin and the Texas Enterprise Fund related to its occupation of the Premises ("Economic Incentives"). In relation thereto, Landlord agrees to reasonably cooperate, at no out-of-pocket expense to Landlord, with Tenant in the application and/or processing of such Economic Incentives, and Landlord hereby acknowledges that all right, title and interest in and to the Economic Incentives that do not relate to Taxes or Landlord's Building or Project belong to Tenant and Landlord waives any and all right, if any, to claim any interest in and to such Economic Incentives that do not relate to Taxes or Landlord's Building or Project at any time, except during an Event of Default.

**38. Limitation of Liability of Trustees, Shareholders, and Officers of Landlord.** Any obligation or liability whatsoever of Landlord which may arise at any time under this Lease or any obligation or liability which may be incurred by it pursuant to any other instrument, transaction, or undertaking contemplated hereby shall not be personally binding upon, nor shall resort for the enforcement thereof be had to the property of, its trustees, directors, shareholders, officers, employees or agents, regardless of whether such obligation or liability is in the nature of contract, tort, or otherwise.

**39. WAIVER OF JURY TRIAL. TENANT AND LANDLORD WAIVE ANY RIGHT TO TRIAL BY JURY OR TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, BETWEEN LANDLORD AND TENANT ARISING OUT OF THIS LEASE OR ANY OTHER INSTRUMENT, DOCUMENT, OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH OR THE TRANSACTIONS RELATED HERETO.**

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the day and year first above written.

TENANT:  
**Superconductor Technologies Inc.**

By: /s/ R L Johnson  
Name: R L Johnson  
Title: Senior Vice President, Operations

LANDLORD:  
**PROLOGIS TEXAS III LLC**  
a Delaware limited liability company  
By: ProLogis Management Incorporated  
a Delaware corporation  
its Agent  
By: /s/ Jeff Folkmann  
Name: Jeff Folkmann  
Title: Vice President

**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  
Resonant, Inc., a Delaware corporation

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements of Superconductor Technologies, Inc. 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. 333-117107, 333-148115 and 333-172190) of our report, which includes an explanatory paragraph as to the Company's ability to continue as a going concern, dated March 30, 2012, with respect to our audits of the consolidated financial statements and related consolidated financial statement schedule of Superconductor Technologies, Inc. as of December 31, 2011 and 2010 and for the years then ended, which report is included in this Annual Report on Form 10-K of Superconductor Technologies, Inc. for the years then ended December 31, 2011 and 2010.

/s/ Marcum, LLC  
Los Angeles, California  
March 30, 2012

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements of Superconductor Technologies, Inc. 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 our report dated March 16, 2010 (which report expresses an unqualified opinion and includes an explanatory paragraph raising substantial doubt about the Company's ability to continue as a going concern) relating to the consolidated financial statements and financial statement schedule, as of December 31, 2009 and for the year then ended, which report is included in this Annual Report on Form 10-K of Superconductor Technologies, Inc. for the year ended December 31, 2011.

/s/ Stonefield Josephson, Inc.  
Los Angeles, California  
March 30, 2012

**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 30, 2012

/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 30, 2012

/s/ William J. Buchanan

William J. Buchanan  
Chief Financial Officer (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 30, 2012

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, 2011 (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

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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 30, 2012

I, William J. Buchanan, Controller 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, 2011 (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

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William J. Buchanan

Chief Financial Officer (Principal Financial and Accounting and Officer)