SUPERCONDUCTOR TECHNOLOGIES INC (SCON)

10-K
Annual report pursuant to section 13 and 15(d)
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT
PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934.

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the fiscal year ended December 31, 2010

OR

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

Commission File Number 0-21074

SUPERCONDUCTOR TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

Delaware	**77-0158076**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*

460 Ward Drive, Santa Barbara, California 93111-2310

(Address of principal executive offices) (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common stock, $0.001 par value	The NASDAQ Stock Market, LLC

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

The aggregate market value of the common stock held by non-affiliates was $34.7 million as of July 3, 2010 (the last business day of our most recently completed second fiscal quarter). The closing price of the common stock on that date was $2.40 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 3, 2010. 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 33,002,352 shares of common stock outstanding as of the close of business on March 1, 2011.

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 2011 Annual Meeting of Stockholders.

SUPERCONDUCTOR TECHNOLOGIES INC.

FORM 10-K ANNUAL REPORT
Year Ended December 31, 2010

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

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;*
- *the current worldwide recession;*
- *our need to raise additional capital for our business;*
- *limited number of potential customers;*
- *rapidly advancing technology in our target markets;*
- *our need to overcome additional technical challenges necessary to develop and commercialize HTS wire;*
- *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, 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; 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. Circuits designed to remove interference inherent in some RF signals can also be made from HTS materials. Commercial use of HTS materials requires a number of cutting edge technologies, including development of HTS materials, specialized manufacturing expertise to create uniform thin layers of these materials, expert designs of circuits optimized for HTS materials, and technologies to maintain an extremely low temperature environment for HTS applications (although the critical temperatures for HTS are "high" compared with traditional superconductors, they are still extremely cold by other standards).

Strategic Initiatives

In addition to our ongoing design, manufacture, and sale of high performance infrastructure products for wireless voice and data applications described below, we have created several unique capabilities and HTS manufacturing system that we are seeking to strategically deploy. The capabilities relate to a new wire platform, RF filters and cryocoolers:

- *Wire Platform.* Following a review of our technical capabilities and core competencies, we determined that extending our HTS materials production into a new wire platform for power applications offers an attractive strategic business opportunity. Our second generation (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 Cables:* HTS advanced power transmission cable transmits five to twenty times the electrical power of traditional copper or aluminum cables with much improved efficiency.
  - *Superconducting Fault Current Limiters (SFCL):* SFCLs act like powerful surge protectors, preventing harmful faults from taking down costly substation equipment. SFCLs enable the energy efficient connections of distributed power sources to the grid, fast reliable grid protection, and utilize smart grid design criteria.
  - *Superconducting Wind Turbine Generators:* Superconducting wind turbines allow utilities to add more "power per tower" by significantly reducing turbine size and weight and improving power generation efficiency.

While substantial technical challenges and business challenges remain before we have a commercially successful product introduction, we recently announced that we successfully produced 2G HTS wire samples that meet requirements specified by customers for HTS AC power cable, SFCLs and HTS wind turbine applications. We also announced high-magnetic-field test results for our 2G HTS wire. In an ongoing collaborative research and development agreement (CRADA) with Los Alamos National Laboratory (LANL), we and LANL produced a 2G HTS wire sample that demonstrates exceptional in-field critical current values. This current-carrying capability in high magnetic field demonstrates the effectiveness of our HTS fabrication process at producing 2G HTS wire for demanding applications such as superconducting fault current limiters and high-power wind turbine generators.

- *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.

- *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.

Our HTS Manufacturing System

We consider our manufacturing systems to be significant to our business plan and competitive positioning, including on our wire platform initiative. We have developed a proprietary Reactive Co-Evaporation and Cyclical Deposition Reaction (RCE-CDR), or simply RCE, deposition technique that allows us to precisely control growth rates, the relative proportions of metals and the chamber temperature. The process further allows us to precisely control and make the refinements necessary for a high-yield, high-output manufacturing. After extensive evaluation of a number of HTS compounds that include one or more of these HTS elements we chose yttrium barium copper oxide (YBCO) as the compound with the best properties for the applications we were pursuing. Utilizing this tightly controlled process and revolutionary RCE deposition method we increased production yield of our YBCO wafers to over 95%. In addition, because we can control the factors that determine the structure of the HTS crystal being grown, we are able to make innovative changes to the crystal to optimize its performance for the RF filtering application.

Our Proprietary Technology

We are focused on research and development to maintain our technological edge. As of December 31, 2010, we had 23 employees in our research and development division; 7 of our employees have Ph.D.'s, and 7 others hold advanced degrees in physics, materials science, electrical engineering and other fields. Our development efforts over the last 23 years have yielded an extensive patent portfolio as well as critical trade secrets, unpatented technology and proprietary knowledge. We enter into confidentiality and non-disclosure agreements with our employees, suppliers and consultants to protect our proprietary information. As of December 31, 2010, we held 61 U.S. patents in addition to 23 issued foreign patents, 17 U.S. patent applications pending and 64 foreign applications patents pending.

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

- *Wireless Networks.* Our current commercial products help maximize the performance of wireless telecommunications networks by improving the quality of uplink signals from mobile wireless devices. Our products increase capacity utilization, lower dropped and blocked calls, extend coverage, and enable higher wireless data throughput — all while reducing capital and operating costs. We are leveraging our unique filtering technology to pursue wireless business on multiple fronts: capturing wireless business with tier one U.S. wireless carriers for the LTE network build out, and developing our advanced reconfigurable filtering technology, which has the potential to drastically reduce the size and cost of mobile devices.
- *Superconducting Power Applications.* 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 such as the United States National Labs and the U.S. Department of Energy ("DOE"). In August 2009, we renewed our two year Cooperative Research and Development Agreement with Los Alamos National Laboratory ("LANL"). These technological interchanges will help us meet the technical challenges and performance metrics for both high performance and cost effective 2G HTS wire.

Our development efforts (including those described above under Strategic Initiatives) 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.

Company History

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 new materials for the commercial marketplace. Several other competitive HTS materials companies were also formed in that same timeframe.

After analyzing the market opportunities available, we decided to pursue a strategic revenue opportunity developing products for the electronics industry. Our belief was that these new materials would provide significant benefits for the emerging computing and telecommunications platforms. We ultimately chose an application that would address a serious radio frequency (RF) interference problem being confronted by the new wireless communications industry. Most of our HTS materials competitors chose to pursue superconducting wire opportunities around this time.

Our initial product was completed in 1998 and we began delivery to a number of wireless network providers. In the last 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.

Our Wireless Business

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

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

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

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 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

We generate significant revenues from government contracts. For 2010, 2009 and 2008, government related contracts accounted for 23%, 32% and 40%, respectively, of our net revenues. We typically own the intellectual property developed under these contracts, and grant the Federal government a royalty-free, non-exclusive and nontransferable license to use it. As a result, our government contracts can not only generate a profit for us, but we can also make additional money through exploiting of the resulting technology in our commercial operations as well as government products, or through licenses or joint ventures. Contracts with the U.S. government contain provisions, and are subject to laws and regulations, that give the government rights and remedies not typically found in commercial contracts, including rights that allow the government to:

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

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

Manufacturing

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

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

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

Marketing and Sales

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

Competition

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

Research and Development

Our research and development efforts primarily involve engineering and design related to improving product lines and developing new products and technologies in the same or similar fields using our core technologies. We spent a total of $6.2 million for 2010 and $7.0 million for each of 2009 and 2008 on research and development, of which $5.1 million, $4.4 million and $3.4 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 19%, 37% and 52% of total research and development costs for each of 2010, 2009 and 2008, respectively.

Environmental Issues

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

Corporate Information

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

Employees

As of December 31, 2010, we had a total of 79 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 $342,000 at December 31, 2010, compared to $795,000 at December 31, 2009.

ITEM 1A. *RISK FACTORS*

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

Risks Related to Our Business

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

In each of our last five years, we have experienced significant net losses and negative cash flows from operations. In 2010, we incurred a net loss of $12.0 million and had negative cash flows from operations of $9.4 million. In 2009, we incurred a net loss of $13.0 million and had negative cash flows from operations of $7.4 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.

The current worldwide recession 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 obtain that financing. Further, even if we are able to obtain the financing we need, it may be on terms that are not favorable to us, with increased financing costs and restrictive covenants.

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

At December 31, 2010 we had $6.1 million in cash and cash equivalents. Our cash resources, together with our line of credit, may not be sufficient to fund our business for at least the next twelve months. We believe the key factors to our future liquidity will be our ability to successfully use our expertise and our technology to generate revenues in various ways, including commercial operations, government contracts, joint ventures and licenses. Because of the uncertainty of these factors, we may need to raise funds to meet our working capital needs.

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.

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

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

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

- a slowdown or delay in the deployment, upgrading or improvement of wireless networks by any one customer could significantly reduce demand for our products;
- reductions in a single customer's forecasts and demand could result in excess inventories;
- each of our customers has significant purchasing leverage over us to require changes in sales terms including pricing, payment terms and product delivery schedules; and
- concentration of accounts receivable credit risk, which could have a material adverse effect on our liquidity and financial condition if one of our major customers declared bankruptcy or delayed payment of their receivables.

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

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

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

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

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

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

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

In addition, 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.

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

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

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

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

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

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

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

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

Order deferrals and cancellations by our customers, declining average sales prices, changes in the mix of products sold, increases in inventory and finished goods, delays in the introduction of new products and longer than anticipated sales cycles for our products have, in the past, adversely affected our results of operations. Despite these factors, we maintain significant finished goods, work-in-progress and raw materials inventory to meet estimated order forecasts. If our customers purchase less than the forecasted amounts or cancel or delay existing purchase orders, there will be higher levels of inventory that face a greater risk of obsolescence. If our customers desire to purchase products in excess of the forecasted amounts or in a different product mix, there may not be enough inventory or manufacturing capacity to fill their orders.

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

Our sales cycles are unpredictable, making future performance uncertain.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

We have experienced difficulty recruiting senior management due to the high cost of living in the Santa Barbara area. We have a limited pool of qualified executives in Santa Barbara and may attempt to recruit qualified candidates from across the country. Some candidates have cited the high cost of housing in Santa Barbara as a significant negative factor when considering our employment offers. We have mitigated this problem to a limited extent by allowing some executives to maintain their existing residences in other parts of the country and effectively "commute" to our corporate headquarters in Santa Barbara as needed to perform their duties. Regardless, we expect the cost of housing in our area will continue to present a significant obstacle to recruiting senior executives.

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

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

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

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

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

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

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

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

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

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 additional to facing many of the risks faced by our domestic business, if that joint venture or any other international operation we may have is to be successful, we (together with any joint venture partner) must recruit the necessary personnel and develop the facilities needed to manufacture and sell the products involved, learn about the local market (which may significantly 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;
- variations in our operating results and whether we have achieved key business targets;
- changes in, or our failure to meet, earnings estimates;
- changes in securities analysts' buy/sell recommendations;
- differences between our reported results and those expected by investors and securities analysts;
- announcements of new contracts by us or our competitors;
- market reaction to any acquisitions, joint ventures or strategic investments announced by us or our competitors; and
- general economic, political or stock market conditions.

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

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

As of December 31, 2010, we had outstanding warrants and options exercisable for an aggregate of 840,552 shares of common stock at a weighted average exercise price of $7.70 per share. We have registered the issuance of all these shares, and they will be freely tradable by the exercising party upon issuance. The holders may sell these shares in the public markets from time to time, without limitations on the timing, amount or method of sale. As our stock price rises, the holders may exercise their warrants and options and sell a large number of shares. This could cause the market price of our common stock to decline.

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

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

In addition, our board of directors has the authority to issue up to 2,000,000 shares of preferred stock and to determine the terms, rights and preferences of this preferred stock, including voting rights of those shares, without any further vote or action by the stockholders. At March 10, 2011, 1,388,477 shares of preferred stock remained unissued. The rights of the holders of common stock may be subordinate to, and adversely affected by, the rights of holders of preferred stock that may be issued in the future. The issuance of preferred stock could also make it more difficult for a third party to acquire a majority of our outstanding voting stock, even at a premium over our public trading price.

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

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

We have never declared or paid cash dividends on our common stock and do not plan to pay any cash dividends in the near future. Our current policy is to retain all funds and earnings for use in the operation and expansion of our business. In addition, our debt agreements prohibit the payment of cash dividends or other distributions on any of our capital stock except dividends payable in additional shares of capital stock.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

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. Although we currently have excess capacity, we believe this facility can be managed in a flexible and cost effective manner and is adequate to meet current and reasonably anticipated needs for approximately the next two years.

ITEM 3. *LEGAL PROCEEDINGS*

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

ITEM 4. *REMOVED AND RESERVED*

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:

	High	Low
2010		
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
2009		
Quarter ended December 31, 2009	$ 3.35	$ 2.08
Quarter ended September 26, 2009	$ 3.99	$ 2.22
Quarter ended June 27, 2009	$ 5.45	$ 0.93
Quarter ended March 28, 2009	$ 1.45	$ 0.82

Holders of Record

We had 161holders of record of our common stock on March 1, 2011. This number does not include stockholders for whom shares were held in a "nominee" or "street" name. We estimate that there are more than 12,000 beneficial owners of our common stock.

Dividends

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

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

Sales of Unregistered Securities

We did not conduct any offerings of equity securities during the fourth quarter of 2010 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 2010.

Table of Contents

Securities Authorized for Issuance Under Equity Compensation Plans

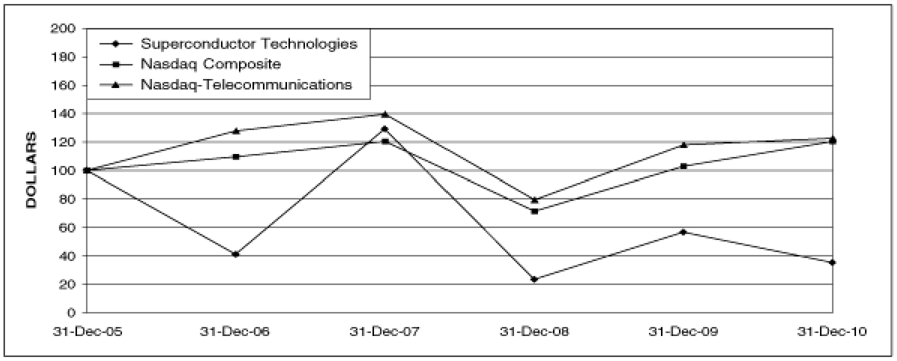
Equity Compensation Plan Information

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a))
Equity compensation plans approved by security holders	1,083,366	$ 6.43	1,874,526
Equity compensation plans not approved by security holders	—	—	—
Total	1,083,366	$ 6.43	1,874,526

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, 2005 with the Nasdaq Composite Index, and the Nasdaq Telecommunications Index over the same period (assuming the investment of $100 in our common stock and in the two other indices, and reinvestment of all dividends).



	31-Dec-05	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10
Superconductor Technologies	$ 100.00	$ 41.16	$ 129.07	$ 23.49	$ 56.74	$ 35.35
Nasdaq Composite	100.00	109.52	120.27	71.51	102.89	120.29
Nasdaq-Telecommunications	100.00	127.76	139.48	79.53	117.89	122.52

Table of Contents

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,				
	2010	2009	2008	2007	2006
	(In thousands, except per share data)				
Statement of Operations Data:					
Net revenues:					
Net commercial product revenues	$ 6,548	$ 7,239	$ 6,768	$ 12,787	$ 17,697
Government and other contract revenues	1,999	3,577	4,525	5,115	3,361
Sub license royalties	—	—	—	—	20
Total net revenues	8,547	10,816	11,293	17,902	21,078
Costs and expenses:					
Cost of commercial product revenues	7,732	9,102	8,911	12,944	15,922
Cost of government and other contract revenues	1,180	2,552	3,649	2,906	2,407
Other research and development	5,067	4,399	3,394	3,172	3,488
Selling, general and administrative	6,684	6,925	8,151	8,123	9,086
Restructuring expenses and impairment charges	—	—	141	—	38
Write off of Goodwill	—	—	—	—	20,107
Total costs and expenses	20,663	22,978	24,246	27,145	51,048
Loss from operations	(12,116)	(12,162)	(12,953)	(9,243)	(29,970)
Other income (expense), net	148	(817)	252	117	346
Net loss	$ (11,968)	$ (12,979)	$ (12,701)	$ (9,126)	$ (29,624)
Basic and diluted net loss per common share	$ (0.51)	$ (0.65)	$ (0.77)	$ (0.73)	$ (2.37)
Weighted average number of shares Outstanding	23,344	19,843	16,403	12,488	12,483

	Years Ended December 31,				
	2010	2009	2008	2007	2006
Balance Sheet Data:					
Cash and cash equivalents	$ 6,069	$ 10,365	$ 7,569	$ 3,939	$ 5,487
Working capital	7,655	12,557	12,253	3,293	10,158
Total assets	12,569	18,126	19,358	16,625	21,904
Long-term debt, including current portion	608	576	521	563	618
Total stockholders' equity	$ 10,896	$ 16,241	$ 17,552	$ 9,190	$ 17,951

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

Results of Operations

2010 Compared to 2009

Net revenues consist primarily of commercial product revenues and government contract revenues. 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. This reduced level of government contract revenue will continue as we use 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 $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:

	Years Ended December 31,			
	2010		2009	
	Dollars in thousands			
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)%

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 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 $5.1 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 amounted to $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.

2009 Compared to 2008

Net revenues decreased by $0.5 million, or 4%, to $10.8 million in 2009 from $11.3 million in 2008.

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

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

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

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

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

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

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

Research and development expenses totaled $4.4 million in 2009 compared to $3.4 million in 2008, an increase of $1.0 million, or 30%. In 2009, we increased our new commercial products development effort by $500,000 and in 2008 we capitalized a $521,000 development related to a product for the China market. We have relatively fixed engineering resources, and our research and development expenses vary inversely with the amount of those resources allocated to our government contract activities.

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

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

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

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

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

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

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

Liquidity and Capital Resources

Cash Flow Analysis

As of December 31, 2010, we had working capital of $7.7 million, including $6.1 million in cash and cash equivalents, compared to working capital of $12.6 million at December 31, 2009, which included $10.4 million in cash and cash equivalents. We currently invest our excess cash in short-term, investment-grade, money-market instruments with maturities of three months or less. Our investments have no exposure to the auction rate securities market.

Cash and cash equivalents decreased by $4.3 million from $10.4 million at December 31, 2009 to $6.1 million at December 31, 2010. In 2010, cash was used principally in operations and to a lesser extent for the purchase of property and equipment. These uses were partially offset by net cash proceeds of $6.0 million provided by the sales of common stock.

Cash used in operations totaled $9.4 million in 2010. We used $9.6 million to fund the cash portion of our net loss. We also used cash to fund a $255,000 increase in accounts payable payments and patents and licenses payments. These uses were offset by cash generated from the sale of inventory, lower accounts receivable, lower prepaid expenses and lower other assets totaling $513,000.

Net cash used in investing activities, which was for the purchase of fixed assets, totaled $374,000 in 2010.

Net cash provided by financing activities in 2010 totaled $5.5 million. Cash from the sale of common stock was $6.0 million, net of approximately $900,000 in expenses, from the sale of 4.6 million shares of common stock at $1.50 per share in August and October 2010. In January we repurchased $573,000 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.

Financing activities from the sale of our common stock in August and October of 2010 totaled $6.0 million, net of $900,000 in expenses, from the sale of 4.6 million shares of our common stock at $1.50 per share.

As described in *Future Liquidity*, in a registered direct offering completed in February 2011 we raised proceeds of $12.4 million, net of offering costs of $920,000, from the sale of 5,443,000 shares of common stock at $2.45 per share based on a negotiated discount to market.

We have an existing line of credit from a bank. The line of credit expires in July 2011. The loan agreement is structured as a sale of our accounts receivable and provides for the sale of up to $3.0 million of eligible accounts receivable, with advances to us totaling 80% of the receivables sold. Advances bear interest at the bank's prime rate (4.0% at December 31, 2010) plus 2.50% subject to a minimum monthly charge. Advances are collateralized by a lien on all of our assets. Under the terms of the agreement, we continue to service the sold receivables and are subject to recourse provisions. There was no amount outstanding under this borrowing facility at December 31, 2010.

Contractual Obligations and Commercial Commitments

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

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

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

Purchase Commitments. In the normal course of business, we incur purchase obligations with vendors and suppliers for the purchase of inventory, as well as other goods and services. These obligations are generally evidenced by purchase orders that contain the terms and conditions associated with the purchase arrangements. We are committed to accept delivery of such material pursuant to the purchase orders subject to various contract provisions that allow us to delay receipt of such orders or cancel orders beyond certain agreed upon lead times. Cancellations may result in cancellation costs payable by us.

Tabular Disclosure of Contractual Obligations. At December 31, 2010, we had the following contractual obligations and commercial commitments:

	Payments Due by Period				
Contractual Obligations	**Total**	**2011**	**2012 and 2013**	**2014 and 2015**	**2016 and beyond**
Operating leases	8,231,000	1,307,000	2,704,000	2,856,000	1,364,000
Minimum license commitment	1,635,000	175,000	350,000	375,000	735,000
Fixed asset and inventory purchase commitments	203,000	203,000	—	—	—
Total contractual cash obligations	$ 10,069,000	$ 1,685,000	$ 3,054,000	$ 3,231,000	$ 2,099,000

Capital Expenditures

We plan to invest approximately $2.3 million in fixed assets during 2011.

Future Liquidity

In 2010, we incurred a net loss of $12.0 million and had negative cash flows from operations of $9.4 million. In 2009, we incurred a net loss of $13.0 million and had negative cash flows from operations of $7.4 million. Our independent registered public accounting firm has included in their audit reports for 2010 through 2008 an explanatory paragraph expressing doubt about our ability to continue as a going concern.

At December 31, 2010 we had $6.1 million in cash. Our cash resources, together with our line of credit, may not be sufficient to fund our business for at least the next twelve months. We believe the key factors to our future liquidity will be our ability to successfully use our expertise and our technology to generate revenues in various ways, including commercial operations, government contracts, joint ventures and licenses. Because of the uncertainty of these factors, we may need to raise funds to meet our working capital needs. *(See Note 13)*

In a registered direct offering completed in February 2011 we raised proceeds of $12.4 million, net of offering costs of $920,000, from the sale of 5,443,000 shares of common stock at $2.45 per share based on a negotiated discount to market.

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, 2010, we had net operating loss carryforwards for federal and state income tax purposes of approximately $303.1 million and $191.9 million**,** respectively, which expire in the years 2011 through 2030. Of these amounts, $76.1 million and $23.5 million, respectively, resulted from the acquisition of Conductus. However, during 2010 management concluded that under the Internal Revenue Code change of control limitations, a maximum of $81.9 million and $55 million, respectively, would be available for reduction of taxable income, and reduced both the deferred tax asset and valuation allowance accordingly. 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 state income tax purposes of approximately $189,000 and $141,000, respectively, which expire in the years 2029 and 2030.

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 will be subject to annual limitation upon utilization in future periods.

Market Risk

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

At December 31, 2010, we had approximately $5.4 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. As we had no amounts outstanding on our bank loan during 2010, changes in its interest rate would not have affected us.

Inflation

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

Critical Accounting Policies and Estimates

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

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

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

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

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

ITEM 9A. *CONTROLS AND PROCEDURES*

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

We have established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). As of the end of the period covered by this report we carried out an evaluation under the supervision and with the participation of our management, including the our Chief Executive Officer and 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, 2010 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, 2010. 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, 2010, our internal control over financial reporting is effective.

ITEM 9B. ***OTHER INFORMATION***

None.

PART III

ITEM 10. ***DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

The information required by this item is incorporated by reference to our Proxy Statement for the 2011 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, 2010.

ITEM 11. ***EXECUTIVE COMPENSATION***

The information required by this item is incorporated by reference to our Proxy Statement for the 2011Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our year ended December 31, 2010.

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 2011 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, 2010.

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 2011 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, 2010.

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

The information required by this item is incorporated by reference to our Proxy Statement for the 2011 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, 2010.

PART IV

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

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

1. Index to Financial Statements. Our 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:

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

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

Number	Description of Document
3.1	Restated Certificate of Incorporation of Registrant as amended through March 1, 2006.(22)
3.2	Amended and Restated Bylaws of Registrant.(22)
3.3	Amendment adopted March 29, 2010 to Amended and Restated Bylaws of Registrant.(23)
4.1	Form of Common Stock Certificate.(21)
4.2	Certificate of Designations of Registrant of Series A Convertible Preferred Stock of Registrant filed November 13, 2007.(20)
4.3	Certificate of Designations, Preferences and Rights of Series E Convertible Preferred Stock of Registrant.(2)
4.4	Warrant to Purchase Stock issued by Registrant to Silicon Valley Bank and Registration Rights Agreement.(8)
10.3	Amended and Restated 1998 Non-Statutory Stock Option Plan, including Form of Stock Option Agreement.(3)***
10.4	1999 Stock Plan.(1)***
10.5	Form of 1999 Stock Plan Stock Option Agreement.(1)***
10.6	Form of Change in Control Agreement dated March 28, 2003.(5)***
10.7	Form of Amendment No. 1 to Change in Control Agreement dated as of May 24, 2005. (15)***
10.8	Form of Amendment No. 2 to Change in Control Agreement dated as of December 31, 2006. (17)***
10.9	Accounts Receivable Purchase Agreement by and between Registrant and Silicon Valley Bank, dated March 28, 2003, effective date June 23, 2003.(5)
10.10	Accounts Receivable Purchase Modification Agreement by and between Registrant and Silicon Valley Bank dated March 17, 2004.(7)
10.11	Amendment to Purchase Agreement by and between Registrant and Silicon Valley Bank dated as of April 27, 2004.(9)

Number	Description of Document
10.12	Accounts Receivable Purchase Modification Agreement by and between Registrant and Silicon Valley Bank dated March 16, 2005.(13)
10.13	Third Amendment to Loan and Security Agreement by and between Registrant and Silicon Valley Bank dated June 16, 2006.(22)
10.14	Fourth Amendment to Loan and Security Agreement by and between Registrant and Silicon Valley Bank dated June 18, 2007.(22)
10.16	Sixth Amendment to Loan and Security Agreement by and between Registrant and Silicon Valley Bank dated July 31, 2008.(21)
10.16	Seventh Amendment to Loan and Security Agreement by and between Registrant and Silicon Valley Bank dated July 31, 2009.(22)
10.17	Eighth Amendment to Loan and Security Agreement by and between Registrant and Silicon Valley Bank dated July 28, 2010.(24)
10.18	Patent License Agreement by and between Registrant and Lucent Technologies GRL LLC.(6)**
10.19	License Agreement between Registrant and Sunpower, Inc. dated May 2, 2005. (10)**
10.20	Employment Agreement between Registrant and Jeffrey Quiram dated as of February 14, 2005. (11)***
10.21	Stock Option Grant and 2003 Equity Incentive Plan Option Agreement between Registrant and Jeffrey Quiram dated February 14, 2005. (11)***
10.22	Amendment to Employment Agreement between Registrant and Jeffrey Quiram dated as of December 31, 2006. (17)***
10.23	2003 Equity Incentive Plan As Amended May 25, 2005. (14)***
10.24	Form of Notice of Grant of Stock Options and Option Agreement for 2003 Equity Incentive Plan. (11)***
10.25	Management Incentive Plan (July 24, 2006). (16)***
10.26	Employment Agreement between Registrant and Terry White dated as of April 11, 2005. (12)***
10.27	Amendment to Employment Agreement between Registrant and Terry White dated as of December 31, 2006. (17)***
10.28	Compensation Policy for Non-Employee Directors dated March 18, 2005. (12)***
10.29	Form of Director and Officer Indemnification Agreement. (15)***
10.30	Lease Agreement between the Registrant and 1200 Enterprises LLC dated as of June 1, 2001.(4)
10.31	First Amendment to Lease between Registrant and 1200 Enterprises LLC dated October 1, 2007.(25)
10.32	Second Amendment to Lease between the Registrant and 1200 Enterprises LLC dated January 19, 2009.(22)
10.33	Agreement between Registrant and Hunchun BaoLi Communication Co., Ltd. ("BAOLI") dated August 17, 2007.(18)
10.34	First Amendment to Agreement between Registrant and BAOLI dated November 1, 2007(19)
10.35	Second Amendment to Agreement between Registrant and BAOLI dated January 7, 2008.(19)
10.36	Framework Agreement between Registrant and BAOLI dated November 8, 2007.(19)
10.37	Sino-Foreign Equity Joint Venture Contract between Superconductor Investments (Mauritius) Limited and BAOLI dated December 8, 2007 (Exhibit A to Framework Agreement with BAOLI).(19)
10.38	Form of Technology and Trademark License Agreement between Superconductor Investments (Mauritius) Limited, Registrant and BAOLI Superconductor Technology Co, Ltd (Exhibit B to Framework Agreement).(19)
14	Code of Business Conduct and Ethics.(15)
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)

(1) Incorporated by reference from Registrant's Registration Statement on Form S-8 filed November 4, 1999 (File No. 333-90293).
(2) Incorporated by reference from Registrant's Current Report on Form 8-K filed October 4, 2000.
(3) Incorporated by reference from Registrant's Registration Statement on Form S-8 filed March 6, 2001 (File No. 333-56606).
(4) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended March 30, 2002, filed May 6, 2002.
(5) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 2003, filed May 13, 2003.
(6) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2003, filed March 11, 2004.
(7) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended April 3, 2004, filed May 12, 2004.
(8) Incorporated by reference from Registrant's Registration Statement on Form S-3 (File No. 333-117107), filed July 2, 2004.
(9) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004, filed August 11, 2004.
(10) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004, filed November 10, 2004.
(11) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, filed March 16, 2005.
(12) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended April 2, 2005, filed May 6, 2005.
(13) Incorporated by reference from Registrants' Current Report on Form 8-K filed April 4, 2005.
(14) Incorporated by reference from Registrant's Current Report on Form 8-K filed May 27, 2005.
(15) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005, filed March 8, 2006.
(16) Incorporated by reference from Registrant's Current Report on Form 8-K filed July 28, 2006.
(17) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2006, filed April 2, 2007.
(18) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended September 29, 2007, filed November 13, 2007.
(19) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2007, filed March 27, 2008.
(20) Incorporated by reference from Registrant's Current Report on Form 8-K/A filed February 25, 2008.
(21) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, filed March 20, 2009.
(22) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2009, filed March 17, 2010.
(23) Incorporated by reference from Registrant's Current Report on Form 8-K filed April 2, 2010.
(24) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2010, filed November 10, 2010.
(25) Filed herewith.

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

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 sheet of Superconductor Technologies, Inc. (the "Company") as of December 31, 2010, and the related consolidated statement of operations, changes in stockholders' equity and cash flows for the year then ended. Our audit also included the consolidated financial statement schedule listed in the Index at Item 15(a)(2) as of and for the year then ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides 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, 2010 and the results of its operations and its cash flows for the year 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 basic 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, the Company has incurred significant net losses since its inception and has an accumulated deficit of $237,633,000 and expects to incur substantial additional losses and costs. The foregoing matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 2 of the accompanying consolidated financial statements. These consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ Marcum llp

Los Angeles, California
March 21, 2011

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

Table of Contents

SUPERCONDUCTOR TECHNOLOGIES INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 6,069,000	$ 10,365,000
Accounts receivable, net	108,000	462,000
Inventory, net	2,230,000	2,644,000
Prepaid expenses and other current assets	344,000	445,000
Total Current Assets	**8,751,000**	**13,916,000**
Property and equipment, net of accumulated depreciation of $21,948,000 and $21,076,000, respectively	1,334,000	1,832,000
Patents, licenses and purchased technology, net of accumulated amortization of $2,494,000 and $2,384,000, respectively	2,274,000	2,163,000
Other assets	210,000	215,000
Total Assets	**$ 12,569,000**	**$ 18,126,000**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 548,000	$ 467,000
Accrued expenses	517,000	671,000
Fair value of warrant derivative	—	171,000
Other current liabilities	31,000	50,000
Total Current Liabilities	**1,096,000**	**1,359,000**
Other long term liabilities	577,000	526,000
Total Liabilities	**1,673,000**	**1,885,000**
Commitments and contingencies (Notes 7 and 8)		
Stockholders' Equity:		
Preferred stock, $.001 par value, 2,000,000 shares authorized, 611,523 issued and outstanding	1,000	1,000
Common stock, $.001 par value, 250,000,000 shares authorized, 27,217,408 and 22,512,033 shares issued and outstanding, respectively	28,000	23,000
Capital in excess of par value	248,500,000	241,882,000
Accumulated deficit	(237,633,000)	(225,665,000)
Total Stockholders' Equity	**10,896,000**	**16,241,000**
Total Liabilities and Stockholders' Equity	**$ 12,569,000**	**$ 18,126,000**

See accompanying notes to the consolidated financial statements

Table of Contents

SUPERCONDUCTOR TECHNOLOGIES INC.

CONSOLIDATED STATEMENT OF OPERATIONS

	Years Ending December 31		
	2010	**2009**	**2008**
Net revenues:			
Net commercial product revenues	$ 6,548,000	$ 7,239,000	$ 6,768,000
Government and other contract revenues	1,999,000	3,577,000	4,525,000
Total net revenues	**8,547,000**	**10,816,000**	**11,293,000**
Costs and expenses:			
Cost of commercial product revenues	7,732,000	9,102,000	8,911,000
Cost of government and other contract revenues	1,180,000	2,552,000	3,649,000
Research and development	5,067,000	4,399,000	3,394,000
Selling, general and administrative	6,684,000	6,925,000	8,151,000
Restructuring expenses and impairment charges	—	—	141,000
Total costs and expenses	**20,663,000**	**22,978,000**	**24,246,000**
Loss from operations	**(12,116,000)**	**(12,162,000)**	**(12,953,000)**
Other Income and Expense			
Impairment of asset for, and noncontrolling interest in joint venture	—	(638,000)	—
Adjustments to fair value of derivatives	171,000	(171,000)	—
Interest income	6,000	24,000	284,000
Interest expense	(29,000)	(32,000)	(32,000)
Net loss	**$ (11,968,000)**	**$ (12,979,000)**	**$ (12,701,000)**
Basic and diluted net loss per common share	**$ (0.51)**	**$ (0.65)**	**$ (0.77)**
Basic and diluted weighted average number of common shares outstanding	**23,344,461**	**19,842,687**	**16,402,509**

See accompanying notes to the consolidated financial statements

Table of Contents

SUPERCONDUCTOR TECHNOLOGIES INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Convertible Preferred Stock		Common Stock		Capital in Excess of Par Value	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance at December 31, 2007	—	$ —	**12,511,414**	**$ 12,000**	**$ 209,163,000**	**$ (199,985,000)**	**$ 9,190,000**
Issuance of common stock (net of costs)			5,101,361	5,000	10,563,000		10,568,000
Stock — based compensation			256,255	1,000	593,000		594,000
Issuance of Series A Preferred	611,523	1,000			9,900,000		9,901,000
Net loss						(12,701,000)	(12,701,000)
Balance at December 31, 2008	**611,523**	**1,000**	**17,869,030**	**18,000**	**230,219,000**	**(212,686,000)**	**17,552,000**
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)
Balance at December 31, 2009	**611,523**	**1,000**	**22,512,033**	**23,000**	**$ 241,882,000**	**(225,665,000)**	**16,241,000**
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)
Balance at December 31, 2010	**611,523**	**$ 1,000**	**27,217,408**	**$ 28,000**	**$ 248,500,000**	**$ (237,633,000)**	**$ 10,896,000**

See accompanying notes to the consolidated financial statements.

SUPERCONDUCTOR TECHNOLOGIES INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended December 31, 2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (11,968,000)	$ (12,979,000)	$ (12,701,000)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	976,000	1,462,000	1,735,000
Stock-based compensation expense	1,159,000	1,212,000	587,000
Provision for excess and obsolete inventories	360,000	282,000	17,000
Noncontrolling interest in joint venture	—	117,000	—
Fair value of derivatives	(171,000)	171,000	—
Asset impairment	—	521,000	—
Changes in assets and liabilities:			
Accounts receivable	354,000	(107,000)	2,057,000
Inventories	54,000	2,352,000	(1,880,000)
Prepaid expenses and other current assets	101,000	(147,000)	(26,000)
Patents and licenses	(215,000)	(240,000)	(315,000)
Other assets	5,000	14,000	9,000
Accounts payable, accrued expenses and other current liabilities	(40,000)	(92,000)	(1,603,000)
Net cash used in operating activities	(9,385,000)	(7,434,000)	(12,120,000)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(375,000)	(226,000)	(179,000)
Investment in joint venture	—	—	(521,000)
Net cash used in investing activities	(375,000)	(226,000)	(700,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repurchase of common shares for withholding obligations	(573,000)	—	—
Net proceeds from sale of common stock	6,037,000	10,456,000	16,450,000
Net cash provided by financing activities	5,464,000	10,456,000	16,450,000
Net increase (decrease) in cash and cash equivalents	(4,296,000)	2,796,000	3,630,000
Cash and cash equivalents at beginning of year	10,365,000	7,569,000	3,939,000
Cash and cash equivalents at end of year	$ 6,069,000	$ 10,365,000	$ 7,569,000

See accompanying notes to the consolidated financial statements.

SUPERCONDUCTOR TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — The Company

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

From 1987 to 1997, we were engaged primarily in research and development and generated revenues primarily from government research contracts. Since then, we have provided solutions for wireless infrastructure in the telecommunications industry. Our commercial product offerings are divided into the following three areas: SuperLink (high-temperature superconducting filters), AmpLink (high performance, ground-mounted amplifiers) and SuperPlex (high performance multiplexers). 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 2010, 2009 and 2008, government related contracts accounted for 23%, 32%, and 40%, 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 $237.6 million. In 2010, we incurred a net loss of $12.0 million and had negative cash flows from operations of $9.4 million. In 2009, we had an accumulated deficit of $225.7 million, a net loss of $13.0 million and negative cash flows from operations of $7.4 million. These factors raise substantial doubt about our ability to continue as a going concern.

At December 31, 2010 we had $6.1million in cash. Our cash resources, together with our line of credit, may 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.

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.

SUPERCONDUCTOR
TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Accounts Receivable

We sell predominantly to entities in the wireless communications industry and to entities of the United States government. We grant uncollateralized credit to our customers. We perform usual and customary credit evaluations of our customers before granting credit. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on historical write-off experience. Past due balances are reviewed for collectibility. 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 financial position, results of operations or cash flows.

Shipping and Handling Fees and Costs

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

Warranties

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

Guarantees

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

Research and Development Costs

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

Inventories

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

Property and Equipment

Property and equipment are recorded at cost. Equipment is depreciated using the straight-line method over their estimated useful lives ranging from three to five years. Leasehold improvements and assets financed under capital leases are amortized over the shorter of their useful lives or the lease term. Furniture and fixtures are depreciated over seven years. Expenditures for additions and major improvements are capitalized. Expenditures for minor tooling, repairs and maintenance and minor improvements are charged to expense as incurred. When property or equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Gains or losses from retirements and disposals are recorded in selling, general and administrative expenses. In 2010 and 2009 there were disposals totaling $12,000 and zero, respectively.

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 ending in 2009.

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 2010 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 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. The adoption of this guidance has not had a material impact on our consolidated financial statements as we concluded our tax positions are highly certain of being settled at 100% of the benefit claimed. Guidance is also provided on the accounting for the related interest and penalties, financial statement and disclosure. We are currently not under examination by any taxing authority nor have we been notified of an impending examination. The oldest tax year that remains open to possible evaluation and interpretation of our tax position is 1996.

Marketing Costs

All costs related to marketing and advertising our products are expensed as incurred or at the time the advertising takes place. Advertising costs were not material in each of the three years in the period ended December 31, 2010.

Net Loss Per Share

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

Stock-based Compensation Expense

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

	2010	2009	2008
Cost of revenue	$ 22,000	$ 32,000	$ 22,000
Research and development	322,000	287,000	122,000
Selling, general and administrative	815,000	893,000	443,000
	$ 1,159,000	$ 1,212,000	$ 587,000

The impact to the Consolidated Statement of Operations for 2010, 2009 and 2008 on basic and diluted earnings per share was $0.05, $0.06 and $0.04, respectively. No stock compensation cost was capitalized during the periods.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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 receivables, inventories, prepaid expenses and other current assets, lines of credit and other current liabilities as of December 31, 2010 and December 31, 2009 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.

Segment Information

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

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 2010, we had two customers that represented 58% and 12% of total net revenues and 31% of accounts receivable. In 2009, these two customers represented 51% and 11% of total net revenues and 38% of accounts receivable. The loss of or reduction in sales, or the inability to collect outstanding accounts receivable, from any of these customers could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

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

Note 3 — Short Term Borrowings

We have a line of credit with a bank. There was no amount outstanding under this borrowing facility at December 31, 2010. The line of credit expires July 2011 and is structured as a sale of accounts receivable. The agreement provides for the sale of up to $3.0 million of eligible accounts receivable, with advances to us totaling 80% of the receivables sold. Any advances would bear interest at the bank's prime rate (4.0% at December 31, 2010) plus 2.50% subject to a minimum monthly charge. Advances (if any) under the agreement are collateralized by all of our assets. Under the terms of the agreement, we continue to service the sold receivables and are subject to recourse provisions.

The agreement contains representations and warranties, affirmative and negative covenants and events of default customary for financings of this type. The failure to comply with these provisions, or the occurrence of any one of the events of default, would prevent any further borrowings and would generally require the repayment of any outstanding borrowings. Such representations, warranties and events of default include (a) non-payment of debt and interest hereunder, (b) non-compliance with terms of the agreement covenants, (c) insolvency or bankruptcy, (d) material adverse change, (e) merger or consolidation where our stockholders do not hold a majority of the voting rights of the surviving entity, (f) transactions outside the normal course of business, or (g) payment of dividends. At December 31, 2010 we were in compliance with all covenants.

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 2010, 2009 or 2008.

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 2010, 2009 and 2008 as follows:

	2010	2009	2008
Tax benefit computed at Federal statutory rate	34.0%	34.0%	34.0%
Increase (decrease) in taxes due to:			
Change in valuation allowance	(39.8)	(39.8)	(39.8)
State taxes, net of federal benefit	5.8	5.8	5.8
Impairment of Goodwill (not deductible for tax)	—	—	—
	—%	—%	—%

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

	2010	2009
	$ 31,059,000	$ 112,187,000
Loss carryforwards		
Capitalized research and development	736,000	1,102,000
Depreciation	2,429,000	2,577,000
Tax credits	282,000	3,984,000
Inventory	437,000	330,000
Acquired intellectual property	(90,000)	(90,000)
Other	247,000	519,000
Less: valuation allowance	(35,100,000)	(120,609,000)
	$ —	$ —

As of December 31, 2010, we had net operating loss carryforwards for federal and state income tax purposes of approximately $303.1 million and $191.9 million**,** respectively, which expire in the years 2011 through 2030. Of these amounts $76.1 million and $23.5 million, respectively, resulted from the acquisition of Conductus. However, during 2010 management concluded that under the Internal Revenue Code change of control limitations, a maximum of $81.9 million and $55.0 million, respectively, would be available for reduction of taxable income, and reduced both the deferred tax asset and valuation allowance, accordingly. 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 state income tax purposes of approximately $189,000 and $141,000, respectively, which expire in the years 2029 and 2030.

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. The 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. The valuation allowance had increased by $3.0 million in 2009 and by $2.4 million in 2008.

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 will be subject to annual limitation upon utilization in future periods.

Note 5 — Stockholders' Equity

Preferred Stock

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

Common Stock

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.

In a registered direct offering completed in June 2009 we raised proceeds of $10.5 million, net of offering costs of $800,000, from the sale of 3,752,005 shares of common stock at $3.00 per share based on a negotiated discount to market. For both the 2010 and 2009 offerings, we determined the offering price based principally on negotiations between us, the placement agent and the selected institutional investors and on our consideration of the closing prices (including high, low and average prices) and trading volumes of our common stock on the Nasdaq Capital Market primarily during the 30 trading days preceding the date we determined the offering price.

Equity Awards

At December 31, 2010, 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, 2010, 1,874,526 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.

SUPERCONDUCTOR
TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We granted stock options in 2010 and 2008. 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:

	2010	2009	2008
Per share fair value at grant date	$ 1.89	$ —	$ 3.57
Risk free interest rate	1.84%	—	2.47%
Expected volatility	116%	—	109%
Dividend yield	0%	—	0%
Expected life in years	4.0	—	4.0

The expected life was based on the contractual term of the options and the expected employee exercise behavior. Typically, options to our employees have a 3 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, 2010, 1,874,526 shares of common stock were available for future grants and options covering 1,083,366 shares were outstanding but not yet exercised. Option activity during the three years ended December 31, 2010 was as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2007	**741,858**	**$ 34.24**
Granted	576,590	4.83
Canceled	(84,423)	9.60
Exercised	—	—
Outstanding at December 31, 2008	**1,234,025**	**22.18**
Granted	—	—
Canceled	(89,149)	48.20
Exercised	—	—
Outstanding at December 31, 2009	**1,144,876**	**$ 20.16**
Granted	225,498	2.47
Canceled	(287,008)	58.08
Exercised	—	—
Outstanding at December 31, 2010	**1,083,366**	**$ 6.43**

SUPERCONDUCTOR TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes information concerning currently outstanding and exercisable stock options at December 31, 2010:

				Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$1.43 — $2.62	230,444	9.24	$ 2.44	10,875	$ 1.81
2.77 — 4.90	172,100	6.54	3.79	149,643	3.80
5.12 — 5.80	368,675	7.13	5.12	357,887	5.12
6.70 — 7.02	232,100	4.40	6.90	232,100	6.90
8.00 — 79.38	80,047	2.75	28.28	80,047	28.28
	1,083,366	6.58	$ 6.43	830,552	$ 7.57

Our outstanding options expire on various dates through May 2020. The weighted-average contractual term of outstanding options was 6.58 years and the weighted-average contractual term of currently exercisable stock options was 5.8 years. At December 31, 2010, outstanding options covering 600 shares, with an insignificant intrinsic value, had an exercise price less than the current market value and all were exercisable. The number of options exercisable and their weighted average exercise price at December 31, 2009 and 2008 totaled 970,703 and $22.96 and 674,061 and $36.67, respectively.

In October 2010, we issued 25,000 shares of restricted stock under awards that have service conditions and vest over one year. The per share grant-date fair value was $1.68. In May 2010, we issued 242,498 shares of restricted stock under awards that have performance and service conditions and generally vest over three years. The per share grant-date fair value was $2.62. In February 2010, we issued 75,000 shares of restricted stock under awards that have performance and service conditions and generally vest over four years. The per share grant-date fair value was $3.12.

In May 2009, we issued awards covering 55,000 shares of restricted stock, vesting 50% after one year of service and 50% after two years of service. The per share weighted average grant-date fair value was $3.24. In January 2009, we issued awards covering 835,998 shares of restricted stock, vesting 50% after one year and 50% after two years. The per share grant-date fair value was $1.00. In January 2010, 50%, or 417,999, of these 835,998 awards vested and because plan participants may surrender vested shares back to us to satisfy their minimum statutory tax withholding requirements, we repurchased 181,982 shares. The 181,982 repurchased shares had a fair value of $573,000 based on the closing price of our common stock on the Nasdaq Stock Market of $3.15 on their vesting date. In September 2008, we issued awards covering 20,000 shares of restricted stock, all vesting after two years of service, with a per share weighted average grant-date fair value of $1.62. A 10% aggregate forfeiture rate was assumed for all awards.

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

The impact of all equity awards on the consolidated statements of operations for 2010 was an expense of $1.2 million and $0.05 on basic and diluted earnings per share. The 2009 and 2008 impact on net income was an expense of $1.2 million and $587,000, respectively, and $0.06 and $0.04 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 $886,000 and the weighted-average period over which the cost is expected to be recognized is 1.1 year. The total compensation cost related to non-vested stock awards not yet recognized was $741,000, and the weighted-average period over which the cost is expected to be recognized is 1 year.

Warrants

The following is a summary of outstanding warrants at December 31, 2010:

	Common Shares			
	Total	Currently Exercisable	Price per Share	Expiration Date
Warrants related to April 2004 financing	10,000	10,000	$ 18.50	April 28, 2011*

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

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. This fair value adjustment was a loss of $171,000 in 2009.

No warrants were exercised during the last three years.

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 contributed $251,000 to the 401(k) plan in 2010, $241,000 in 2009 and $287,000 in 2008.

Note 7 — Commitments and Contingencies

Operating Leases

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

For 2010, 2009 and 2008, rent expense was $1,065,000, $1,126,000, and $1,122,000, 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 $183,000 in 2010, $161,000 in 2009, and $150,000 in 2008. Under the terms of certain royalty agreements, royalty payments made may be subject to audit. There have been no audits to date and we do not expect any possible future audit adjustments to be significant.

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

Years Ended December 31,	Licenses	Operating Leases
2011	$ 175,000	$ 1,307,000
2012	175,000	1,336,000
2013	175,000	1,368,000
2014	180,000	1,408,000
2015	195,000	1,448,000
Thereafter	735,000	1,364,000
Total payments	$ 1,635,000	$ 8,231,000

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 agreed to indemnify the other party for personal injury or property damage caused by our products. Our indemnification obligations under such agreements are not generally limited in amount or duration. Given that the amount of any potential liabilities related to such indemnities cannot be determined until a lawsuit has been filed against a director or executive officer, we are unable to determine the maximum amount of losses that we could incur relating to such 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. 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:

	2010	2009	2008
Outstanding stock options	1,083,366	1,144,876	1,234,025
Outstanding stock awards	787,997	910,998	20,000
Outstanding warrants	10,000	618,237	352,466
Total	1,881,363	2,674,111	1,606,491

Note 11 — Severance Charges

In 2010, as part of our effort to reduce costs, 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. In December 2008, we incurred $141,000 in severance related expense. Severance expense in 2008 included in cost of goods sold was $19,000 and severance expense included in operating expenses was $122,000.

SUPERCONDUCTOR
TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

Balance Sheet Data:

	December 31, 2010	December 31, 2009
Accounts receivable:		
Accounts receivable-trade	$ 36,000	$ 204,000
U.S. government accounts receivable-billed	74,000	269,000
Less: allowance for doubtful accounts	(2,000)	(11,000)
	$ 108,000	**$ 462,000**

	December 31, 2010	December 31, 2009
Inventories:		
Raw materials	$ 1,499,000	$ 2,010,000
Work-in-process	511,000	543,000
Finished goods	1,316,000	919,000
Less: inventory reserves	(1,096,000)	(828,000)
	$ 2,230,000	**$ 2,644,000**

	December 31, 2010	December 31, 2009
Property and Equipment:		
Equipment	$ 16,092,000	$ 15,743,000
Leasehold improvements	6,786,000	6,761,000
Furniture and fixtures	404,000	404,000
	23,282,000	22,908,000
Less: accumulated depreciation and amortization	(21,948,000)	(21,076,000)
	$ 1,334,000	**$ 1,832,000**

Depreciation expense amounted to $871,000, $1,134,000 and $1,401,000, respectively, in 2010, 2009 and 2008. In 2010 we disposed of older, fully depreciated equipment with an acquisition value of $12,000. There were no disposals in 2009. In 2008 we disposed of older, fully depreciated equipment with an acquisition cost of $598,000. There were no gains or losses from these dispositions.

	December 31, 2010	December 31, 2009
Patents and Licenses:		
Patents pending	$ 1,110,000	$ 1,118,000
Patents issued	1,382,000	1,141,000
Less accumulated amortization	(554,000)	(477,000)
Net patents issued	828,000	664,000
Licenses pending	7,000	18,000
Licenses	563,000	563,000
Less accumulated amortization	(234,000)	(200,000)
Net licenses Issued	329,000	363,000
Purchased technology	1,706,000	1,706,000
Less accumulated amortization	(1,706,000)	(1,706,000)
Net purchased technology	—	—
	$ 2,274,000	**$ 2,163,000**

Amortization expense related to these items totaled $105,000, $328,000 and $334,000, respectively, in 2010, 2009 and 2008. Amortization expenses related to these items are expected to total $105,000 in 2011 and 2012.

	December 31, 2010	December 31, 2009
Accrued Expenses and Other Long Term Liabilities:		
Salaries payable	$ 116,000	$ 107,000
Compensated absences	246,000	397,000
Compensation related	27,000	39,000
Warranty reserve	289,000	255,000
Deferred rent	391,000	384,000
Other	56,000	236,000
Total	**1,125,000**	**1,418,000**
Less current portion	**(548,000)**	**(892,000)**
Long term portion	**$ 577,000**	**$ 526,000**

	2010	2009	2008
Warranty Reserve Activity:			
Beginning balance	**$ 255,000**	**$ 261,000**	**$ 380,000**
Additions	78,000	17,000	41,000
Deductions	(44,000)	(23,000)	(160,000)
Ending balance	**$ 289,000**	**$ 255,000**	**$ 261,000**

SUPERCONDUCTOR
TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Supplemental Cash Flow Information:

	2010	2009	2008
Cash paid for interest	$ 29,000	$ 32,000	$ 32,000

Note 13 — Subsequent Events

In a registered direct offering completed in February 2011 we raised proceeds of $12.4 million, net of offering costs of $920,000, from the sale of 5,443,000 shares of common stock at $2.45 per share based on a negotiated discount to market.

Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2010				
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
2009				
Net revenues(1)	$ 1,677,000	$ 2,631,000	$ 4,292,000	$ 2,216,000
Loss from operations(2)	3,496,000	3,286,000	2,179,000	3,201,000
Net loss	3,542,000	4,108,000	1,819,000	3,510,000
Basic and diluted loss per common share	$ (0.20)	$ (0.23)	$ (0.08)	$ (0.16)
Weighted average number of shares outstanding	17,869,030	18,170,470	21,621,035	21,621,035

(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 $90,000, $90,000, $90,000 and $90,000, respectively, in the 2010 quarters and $12,000, $90,000, $90,000 and $90,000, respectively, in the 2009 quarters.

SUPERCONDUCTOR TECHNOLOGIES INC.

Schedule II — Valuation and Qualifying Accounts

		Additions			
	Beginning Balance	Charged to Costs & Expenses	Charged to Other Accounts	Deductions	Ending Balance
2010					
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
2009					
Allowance for Uncollectible Accounts	75,000	—	—	(64,000)	11,000
Reserve for Inventory Obsolescence	861,000	611,000	—	(644,000)	828,000
Reserve for Warranty	261,000	43,000	—	(49,000)	255,000
Deferred Tax Asset Valuation Allowance	117,658,000	2,951,000	—	—	120,609,000
2008					
Allowance for Uncollectible Accounts	75,000	—	—	—	75,000
Reserve for Inventory Obsolescence	1,015,000	17,000	—	(171,000)	861,000
Reserve for Warranty	380,000	41,000	—	(160,000)	261,000
Deferred Tax Asset Valuation Allowance	$ 115,282,000	$ 2,376,000	$ —	$ —	$ 117,658,000

(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.

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 21st day of March 2011.

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:

Signature	Title	Date
/s/ Jeffrey A. Quiram Jeffrey A. Quiram	President, Chief Executive Officer and Director (Principal Executive Officer)	March 21, 2011
/s/ William J. Buchanan William J. Buchanan	Chief Financial Officer (Principal Financial and Accounting Officer)	March 21, 2011
/s/ David W. Vellequette David W. Vellequette	Director	March 21, 2011
/s/ Lynn J. Davis Lynn J. Davis	Director	March 21, 2011
/s/ Dennis J. Horowitz Dennis J. Horowitz	Director	March 21, 2011
/s/ Martin A. Kaplan Martin A. Kaplan	Chairman of the Board	March 21, 2011
/s/ John D. Lockton John D. Lockton	Director	March 21, 2011

Exhibit 10.31

FIRST AMENDMENT TO LEASE

This First Amendment to Lease (this "Amendment") is made this 1st day of October, 2007 by and between 1200 ENTERPRISES LLC ("Lessor") and SUPERCONDUCTOR TECHNOLOGIES, INC. ("Lessee").

Recitals

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

B. Lessor and Lessee are parties to that certain Standard Industrial/Commercial Multi-Tenant Lease Net dated 22 January 2003 (the "Warehouse Lease") for the premises commonly known as 460 Ward Drive, Suite C, Santa Barbara, California as more particularly described in the Warehouse Lease (the "Warehouse Premises"). The Warehouse Lease was amended by a First Amendment to Lease dated 22 March 2004 (the "Warehouse Amendment"). The Warehouse Lease and the Warehouse Amendment are collectively referred to hereafter as the "Warehouse Lease" for purposes of this Amendment.

C. The parties desire to add the Warehouse Premises to the Lease and to further amend the Lease to make the corresponding changes to the rent provisions.

D. Upon the Effective Date, the Warehouse Lease shall be terminated and be of no further force and effect.

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

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

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

1.1 The first two (2) sentences of Paragraph 1.2(a) are hereby amended to read as follows: "That certain portion of the Project (as defined below), including all improvements therein or to be provided by Lessor under the terms of this Lease, commonly known by the street address of 460 Ward Drive, located in the City of Goleta, County of Santa Barbara, State of California, with zip code 93111, as outlined on Exhibit "A" attached hereto ("Premises") and generally described as (describe briefly the nature of the Premises): Suites A, B, C, D, F, and approximately one-half of Suite E, totaling approximately 70,538 leaseable square foot. The Building is approximately 73,538 leaseable square feet."

1.2 Paragraph 1.5 is hereby amended to read as follows: "Ninety Eight Thousand, Four Hundred & Ninety Six and 55/100 Dollars ($98,496.55) per month ("Base Rent"), payable on the first (1^{st}) day of each month commencing 1 May 2007 (also see Paragraph 4). The Base Rent shall be subject to adjustment on an annual basis on 1 December 2007 and on the same day of every year thereafter (the "Adjustment Date"). The adjustment of the Base Rent shall be calculated as follows:

(1) The rent in effect as of the Adjustment Date in each year shall be increased by the greater of (A) three percent (3.0%); or (B) the percentage increase, if any, in the Consumer Price Index (All Items for All Urban Consumers 1982-84 = 100 Base), of the United States Department of Labor, Bureau of Labor Statistics for the Los Angeles-Anaheim-Riverside,

Initial: Lessee /s/RL Lessor /s/CV

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

X = A x B/C

X = Adjusted Base Rent

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

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

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

The monthly Base Rent as so increased shall be payable for each month commencing with the Adjustment Date and continuing until the next Adjustment Date. In no event, however, shall the CPI Adjusted Base Rent be less than the rent payable for the month immediately preceding the Adjustment Date. Upon the Adjustment Date, Lessee shall pay Lessor 103% of the monthly rent previously paid by Lessee until such time as the calculation pursuant to subparagraph (B) can be made and at that time Lessee shall pay the new monthly Base Rent plus the total of arrearages, if any.

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

(3) In no event shall the Adjusted Base Rent increase by greater than eight percent (8.0%) per annum.

1.3 Paragraph 1.6 is hereby amended to read as follows: "Ninety Five and 92/100 percent (95.92%) ("Lessee's Share")."

2. Effective Date. The "Effective Date" of this Amendment shall be May 1, 2007.

3. Miscellaneous.

3.1 This Amendment shall be construed in accordance with, and all disputes hereunder shall be governed by, the internal laws of the State of California, venue in the County of Santa Barbara.

3.2 In the event of any controversy or dispute arising out of this Amendment, the prevailing party or parties shall be entitled to recover from the nonprevailing part or parties, reasonable expenses, including, without limitation, attorneys' fees and costs actually incurred.

3.3 Should any provision of this Amendment be declared or determined by any court to be illegal or invalid, the validity of the remaining parts, terms, or provisions shall not be affected thereby and such illegal or invalid part, term or provisions shall be deemed not to be a part of this Amendment.

3.4 This Amendment sets forth the entire agreement between the parties hereto, and fully supersedes any and all prior agreements or understandings between the parties hereto pertaining to the subject matter hereof.

3.5 Each part to this Agreement hereby represents and warrants that it has the legal power, right and authority to enter into this Agreement and to consummate this transaction and that it has not assigned any of its rights under the Sublease to any third party.

Initial: Lessee /s/RL Lessor /s/CV

3.6 This Amendment may be executed in several counterparts and any and all such executed counterparts shall constitute one agreement binding upon the parties hereto.

3.7 This Amendment shall be binding on and shall inure to the benefit of the parties hereto and their respective successors and assigns.

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

"Lessor"	"Lessee"
1200 ENTERPRISES LLC	SUPERCONDUCTOR TECHNOLOGIES, INC.
By: /s/ Carol Vernon	By: /s/ Bob Johnson
Print Name: Carol Vernon Date: Nov. 2, 2007	Print Name: Bob Johnson Date: 10/23/07

Initial: Lessee /s/RL Lessor /s/CV

EXHIBIT 21

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

EXHIBIT 23.1

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 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, which includes an explanatory paragraph as to the Company's ability to continue as a going concern, dated March 21, 2011 with respect to our audit of the consolidated financial statements and consolidated financial statement schedule of Superconductor Technologies, Inc. as of December 31, 2010 and for the year ended December 31, 2010, which report is included in this Annual Report on Form 10-K of Superconductor Technologies, Inc. for the year ended December 31, 2010.

/s/ Marcum LLP

Los Angeles, California March 21, 2011

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

/s/ Stonefield Josephson, Inc.

Los Angeles, California March 16, 2010

EXHIBIT 31.1

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 21, 2011

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

EXHIBIT 31.2

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 21, 2011

/s/ William J. Buchanan
William J. Buchanan
Chief Financial Officer (Principal Accounting and Financial Officer)

EXHIBIT 32.1

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 21, 2011

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

1. the accompanying Annual Report on Form 10-K of Superconductor Technologies for the annual period ended December 31, 2010 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Superconductor Technologies Inc.

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

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

EXHIBIT 32.2

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 21, 2011

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

1. the accompanying Annual Report on Form 10-K of Superconductor Technologies for the annual period ended December 31, 2010 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Superconductor Technologies Inc.

/s/ William J. Buchanan

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