FORM 10-K

SUPERCONDUCTOR TECHNOLOGIES INC - SCON

Filed: March 20, 2009 (period: December 31, 2008)

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

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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, 2008

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from__________ to__________

Commission File Number 0-21074

SUPERCONDUCTOR TECHNOLOGIES INC.
(Exact name of registrant as specified in its charter)

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

460 Ward Drive, Santa Barbara, California 93111-2310
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

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

Indicate by check mark 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 $33.9 million as of June 28, 2008 (the last business day of our most recently completed second fiscal quarter). The closing price of the common stock on that date was $2.35 as reported by the NASDAQ Capital Market. For purposes of this determination, we excluded the shares of common stock held by each officer and director and by each person who was known to us to own 10% or more of the outstanding common stock as of June 28, 2008. 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 17,869,030 shares of common stock outstanding as of the close of business on March 2, 2009.

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 2009 Annual Meeting of Stockholders.

SUPERCONDUCTOR TECHNOLOGIES INC.

FORM 10-K ANNUAL REPORT
Year Ended December 31, 2008

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

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

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

PART I

ITEM 1. BUSINESS

General

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

Our Proprietary Technology

We are focused on research and development to maintain our technological edge. As of December 31, 2008, we had 29 employees in our research and development division; eight of our employees have Ph.D.s, and 13 others hold advanced degrees in physics, materials science, electrical engineering and other fields. Our development efforts over the last 21 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, 2008, we held 57 U.S. patents in the following categories:

- 7 patents for technologies directed toward producing thin-film materials and structures, which expire between 2010 and 2025. We have developed a proprietary state-of-the-art manufacturing process for producing HTS thin-films of the highest quality.
- 29 patents for cryogenic and non-microwave circuit designs, which expire between 2010 and 2026. The expertise of our highly qualified team has allowed us to design and fabricate extremely small, high-performance circuits including RF signal filters.
- 17 patents covering cryogenics, packaging and systems, which expire between 2013 and 2025. Our proprietary and patented cryogenic packaging innovation provides us with a significant competitive advantage in maintaining our HTS materials at their critical temperatures.
- 4 patents covering other superconducting technologies, which expire between 2013 and 2015.

As of December 31, 2008, we also had 15 issued foreign patents, 25 U.S. patent applications pending and 44 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.
- *Reconfigurable Handset Filters*. The trend in the wireless handset industry is to continually reduce size and cost, while adding more features and making the unit more adaptable to different air interfaces and frequencies throughout the world. This drives the need for more complex and reconfigurable transceivers. We believe our

strong intellectual property and expertise in frequency agile and thin film filters position us well to meet this demand.

- *Superconducting Power Transmission Lines*. We have entered into a collaborative effort and signed a Material Transfer Agreement with the Department of Energy's Los Alamos National Laboratory ("LANL") to apply our HTS expertise to LANL's research initiative to develop HTS coated conductors for power transmission lines. If successfully developed, HTS superconducting cables could replace copper power transmission lines, resulting in higher capacity with less resistive cable losses.
- *Government Products*. As the worldwide leader in developing tunable HTS filter systems for military applications, we continue to be a crucial partner in the U.S. government's future success. Our high-performance HTS filter systems have been proven to increase the detection range, reduce interference, and in some cases, detect signals that were previously undetectable with conventional technology. Currently, we actively participate in the development of technologies for application in military communications, signals intelligence, and electronic warfare.

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

Our Business Model

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

Government Contracts

We generate significant revenues from government contracts. 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 anytime it wants for any reason or no reason, as well as for default;
- reduce or modify contracts or subcontracts, if its requirements or budgetary constraints change;
- cancel or reduce multi-year contracts and related orders, if funds for contract performance for any subsequent year become unavailable;
- adjust reimbursable contract costs and fees on the basis of audits completed by its agencies through exercise of its oversight rights; and
- control or prohibit the export of products.

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

Commercial Applications

We have chosen to manufacture and sell certain commercial products on our own. To date, our commercial efforts have been focused on the design, manufacture, and sale of high performance infrastructure products for wireless voice and data applications. We have three current product lines, all of which relate to wireless base stations:

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

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

Joint Ventures

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

Licenses

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

Manufacturing

Our manufacturing process involves the assembly of numerous individual components and precision tuning by production technicians. We purchase inventory components and manufacture inventory based on sales forecasts. The parts and materials used by us and our contract manufacturers consist primarily of printed circuit boards, specialized subassemblies, fabricated housing, relays and small electric circuit components, such as integrated circuits, semiconductors, resistors and capacitors. We currently manufacture our SuperLink systems at our facilities in Santa Barbara, California. Principal components of our AmpLink and SuperPlex products are produced by foreign manufacturers. Our Santa Barbara facilities currently also house our AmpLink assembly and distribution center.

A number of components used in our products are available from only one or a limited number of outside suppliers due to unique designs as well as certain quality and performance requirements. We currently purchase substrates for growth of high-temperature superconductor thin-films from a single supplier because of the quality of those substrates. There are additional 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. 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 Andrew/CommScope, ADC, Powerwave, and RFS and both established and newly emerging companies developing similar or competing HTS technologies. We also compete with companies that design, manufacture and sell antenna-optimizing multiplexers and companies that seek to enhance base station range and selectivity by means other than a superconducting filter, including many original equipment manufacturers such as Ericsson and Nokia. In addition, we currently supply components and license technology to several companies that may eventually decide to manufacture or design their own HTS components, rather than purchasing or licensing our technology. With respect to our HTS materials, we compete with THEVA, among others. In the government sector, we compete with universities, national laboratories and both large and small companies for research and development contracts, and with larger defense contractors, such as Raytheon and Northrop Grumman, for government products.

Research and Development

Our research and development efforts primarily involve engineering and design related to improving product lines and developing new products and technologies in the same or similar fields using our core technologies. We spent a total of $7.0 million, $6.1 million, and $5.9 million on research and development for 2008, 2007, and 2006, respectively of which $3.4 million, $3.2 million, and $3.5 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 52%, 48% and 41% of total research and development costs for each of 2008, 2007, and 2006, 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 the 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, 2008, we had a total of 105 employees. None of our employees are represented by a labor union, and we believe that our employee relations are good.

Backlog

Our commercial backlog consists of accepted product purchase orders with scheduled delivery dates during the next twelve months. We had commercial backlog of $272,000 at December 31, 2008, as compared to $352,000 at December 31, 2007.

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

The current global financial crisis may adversely affect our business, operating results and financial condition.

The United States economy has recently experienced a financial downturn, with some financial and economic analysts predicting that the world economy may be entering into a prolonged economic downturn characterized by high unemployment, limited availability of credit, increased rates of default and bankruptcy and decreased consumer and business spending. These developments could negatively affect our business, operating results and financial condition in a number of ways. For example, current or potential customers may delay or decrease spending with us or may not pay us, or may delay paying us, for previously purchased products. In addition, this downturn has had, and may continue to have, an unprecedented negative impact on the global credit markets. Credit has tightened significantly in the last several months, resulting in financing terms that are less attractive to borrowers, and in many cases, the unavailability of certain types of debt financing. If this crisis continues or worsens, and if we are required to obtain financing in the near term to meet our working capital or other business needs, we may not be able 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 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 2008, we incurred a net loss of $12.7 million and had negative cash flows from operations of $12.1 million. In 2007, we incurred a net loss of $9.1 million and had negative cash flows from operations of $5.4 million. Our independent registered public accounting firm has included in its audit reports an explanatory paragraph expressing doubt about our ability to continue as a going concern. If we fail to increase our revenues, we may not achieve and maintain profitability and may not meet our expectations or the expectations of financial analysts who report on our stock.

We 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, 2008 we had $7.6 million in cash. Our cash resources, together with our line of credit, and a planned inventory reduction, may not be sufficient to fund our business through 2009. We believe one of the key factors to our liquidity will be our ability to successfully execute on our plans to increase sales levels in a highly concentrated industry where we experience significant fluctuations in sales from quarter to quarter. Our cash requirements will also depend on numerous other variable factors, including the rate of growth of sales, the timing and levels of products purchased, payment terms and credit limits from manufacturers, and the timing and level of accounts receivable collections. Because of the uncertainty of these many factors, we may need to raise funds in the next six months to meet our working capital needs.

We cannot assure you that additional financing will be available on acceptable terms or at all. If we issue additional equity securities to raise funds, the ownership percentage of our existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise any needed funds, it 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 2008 and 75% of our commercial product revenues from Verizon Wireless and AT&T in 2007. Our future success depends upon the wireless carriers continuing to purchase our products, and fluctuations in demand from such customers could negatively impact our results. Unanticipated demand fluctuations can have a negative impact on our revenues and business and an adverse effect on our results of operations and financial condition.

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

- a slowdown or delay in the deployment, upgrading or improvement of wireless networks by any one customer could significantly reduce demand for our products;
- reductions in a single customer's forecasts and demand could result in excess inventories;
- each of our customers have 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 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, Andrew/CommScope, ADC, Powerwave, and RFS and both established and newly emerging companies developing similar or competing HTS technologies. We also compete with companies that design, manufacture and sell antenna-optimizing multiplexers and companies that seek to enhance base station range and selectivity by means other than a superconducting filter, including many original equipment manufacturers such as Ericsson and Nokia. In addition, we currently supply components and license technology to several companies that may eventually decide to manufacture or design their own HTS components, rather than purchasing or licensing our technology. With respect to our HTS materials, we compete with THEVA, among others. In the government sector, we compete with universities, national laboratories and both large and small companies for research and development contracts, and with larger defense contractors, such as Raytheon and Northrop Grumman, for government products. If we are unable to compete successfully against our current or future competitors, then our business and results of operations will be adversely affected.

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

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

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

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

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

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

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

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

Our sales cycles are unpredictable, making future performance uncertain.

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

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

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

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

A number of components used in our products are available from only one or a limited number of outside suppliers due to unique designs as well as certain quality and performance requirements. We currently purchase substrates for growth of high-temperature superconductor thin-films from a single supplier because of the quality of those substrates. A thin film is a thin layer of high-temperature superconductor material. There are additional components that we source from a single vendor due to the present volume. Key components of our conventional products are manufactured by a sole foreign manufacturer. Our reliance on sole or limited source suppliers involves certain risks and uncertainties, many of which are beyond our control. These include the possibility of a shortage or the discontinuation of certain key components. Any reduced availability of these parts or components when required could impair our ability to manufacture and deliver our systems on a timely basis and result in the delay or cancellation of orders, which could harm our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our efforts are focused on the wireless telecommunications market, including the 2G, 2.5G and 3G markets. The dedication of our resources to the wireless telecommunications market makes us potentially vulnerable to changes in this market, such as new technologies like WIMAX, future competition, changes in availability of capital resources or regulatory changes that could affect the competitive position and rate of growth of the wireless industry.

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

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

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

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

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

- termination by the government;

- reduction or modification in the event of changes in the government's requirements or budgetary constraints;
- increased or unexpected costs causing losses or reduced profits under contracts where prices are fixed or unallowable costs under contracts where the government reimburses for costs and pays an additional premium;
- risks of potential disclosure of confidential information to third parties;
- the failure or inability of the main contractor to perform its contract in circumstances where we are a subcontractor;
- the failure of the government to exercise options for additional work provided for in the contracts; and
- the government's right in certain circumstances to freely use technology developed under these contracts.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our international operations expose us to certain risks.

In November 2007, we signed an agreement for a joint venture with BAOLI to manufacture and market our SuperLink® interference elimination solution for the China market. In 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, 2008, we had outstanding warrants and options exercisable for an aggregate of 1,586,491 shares of common stock at a weighted average exercise price of $18.82 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. In 2008, 611,523 of these shares were issued to BAOLI, and 1,388,477 shares currently remain unissued. The rights of the holders of common stock may be subordinate to, and adversely affected by, the rights of holders of preferred stock that may be issued in the future. The issuance of preferred stock could also make it more difficult for a third party to acquire a majority of our outstanding voting stock, even at a premium over our public trading price.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease all of our properties. All of our operations, including our manufacturing facility, are located in an industrial complex in Santa Barbara, California. We occupy approximately 71,000 square feet in this complex under a long-term lease that expires in 2011. 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

We may be involved in routine litigation arising in the ordinary course of our business, and, while the results of the proceedings cannot be predicted with certainty, we believe that the final outcome of such matters will not have a material adverse effect on our financial position, operating results or cash flow.

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

No matters were submitted to our stockholders during the last quarter of 2008.

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 intraday sales prices for our common stock as reported by NASDAQ for each calendar quarter in the last two fiscal years:

	High	Low
2008		
Quarter ended March 29, 2008	$ 6.80	$3.22
Quarter ended June 28, 2008	$ 4.83	$2.18
Quarter ended September 27, 2008	$ 2.43	$0.73
Quarter ended December 31, 2008	$ 1.50	$0.68
2007		
Quarter ended March 31, 2007	$ 2.60	$1.60
Quarter ended June 30, 2007	$ 2.16	$1.40
Quarter ended September 29, 2007	$10.90	$1.38
Quarter ended December 31, 2007	$13.77	$5.50

Holders of Record

We had 140 holders of record of our common stock on March 2, 2009. This number does not include stockholders for whom shares were held in a "nominee" or "street" name. We estimate that there are more than 15,000 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 2008 that were not registered under the Securities Act of 1933.

Repurchases of Equity Securities

We did not repurchase any shares of our common stock during the fourth quarter of 2008.

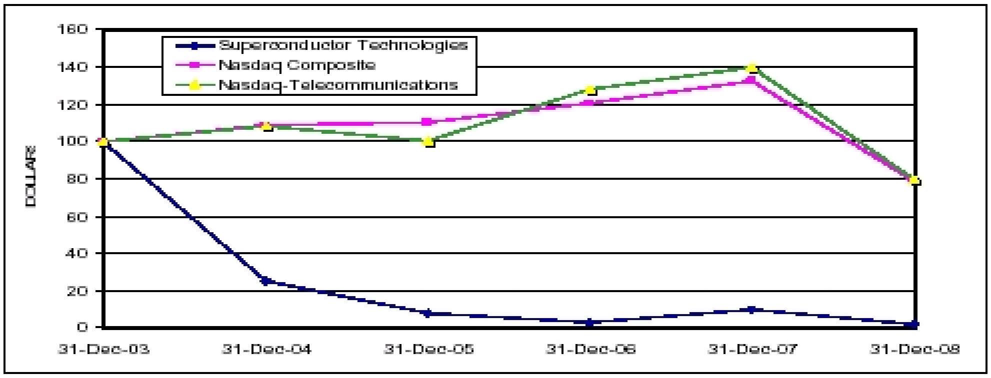
Securities Authorized for Issuance Under Equity Compensation Plans

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	1,234,025	$ 22.18	1,066,019
Equity compensation plans not approved by security holders	—	—	—
Total	1,234,025	$ 22.18	1,066,019

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, 2003 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-03	31-Dec-04	31-Dec-05	31-Dec-06	31-Dec-07	31-Dec-08
Superconductor Technologies	$100.00	$ 25.00	$ 7.73	$ 3.18	$ 9.98	$ 1.82
Nasdaq Composite	100.00	108.59	110.08	120.56	132.39	78.72
Nasdaq-Telecommunications	100.00	108.00	100.21	128.03	139.77	79.69

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,				
	2004	2005	2006	2007	2008
	(In thousands, except per share data)				
Statement of Operations Data:					
Net revenues:					
Net commercial product revenues	$ 16,787	$ 21,080	$ 17,697	$ 12,787	$ 6,768
Government contract revenues	6,189	3,107	3,361	5,115	4,525
Sub license royalties	28	22	20	—	—
Total net revenues	23,004	24,209	21,078	17,902	11,293
Costs and expenses:					
Cost of commercial product revenues	23,421	18,989	15,922	12,944	8,911
Contract research and development	4,465	2,806	2,407	2,906	3,649
Other research and development	5,036	4,214	3,488	3,172	3,394
Selling, general and administrative	16,051	11,442	9,086	8,123	8,151
Restructuring expenses and impairment charges	4,128	1,197	38	—	141
Write off of Goodwill	—	—	20,107	—	—
Total costs and expenses	53,101	38,648	51,048	27,145	24,246
Loss from operations	(30,097)	(14,439)	(29,970)	(9,243)	(12,953)
Other income (expense), net	(1,120)	226	346	117	252
Net loss	$ (31,217)	$ (14,213)	$ (29,624)	$ (9,126)	$ (12,701)
Basic and diluted net loss per share:					
Net loss per common share	$ (3.71)	$ (1.24)	$ (2.37)	$ (0.73)	$ (0.77)
Weighted average number of shares Outstanding	8,424	11,419	12,483	12,488	16,403

	Years Ended December 31,				
	2004	2005	2006	2007	2008
Balance Sheet Data:					
Cash and cash equivalents	$12,802	$13,018	$ 5,487	$ 3,939	$ 7,569
Working capital	16,146	17,218	10,158	3,293	12,253
Total assets	62,358	52,045	21,904	16,625	19,358
Long-term debt, including current portion	76	33	618	563	521
Total stockholders' equity	49,249	47,257	17,951	9,190	17,552

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).

Our Proprietary Technology

We are focused on research and development to maintain our technological edge. As of December 31, 2008, we had 29 employees in our research and development division; eight of our employees have Ph.D.s, and 13 others hold advanced degrees in physics, materials science, electrical engineering and other fields. Our development efforts over the last 21 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, 2008, we held 57 U.S. patents in the following categories:

- 7 patents for technologies directed toward producing thin-film materials and structures, which expire between 2010 and 2025. We have developed a proprietary state-of-the-art manufacturing process for producing HTS thin-films of the highest quality.
- 29 patents for cryogenic and non-microwave circuit designs, which expire between 2010 and 2026. The expertise of our highly qualified team has allowed us to design and fabricate extremely small, high-performance circuits including RF signal filters.
- 17 patents covering cryogenics, packaging and systems, which expire between 2013 and 2025. Our proprietary and patented cryogenic packaging innovation provides us with a significant competitive advantage in maintaining our HTS materials at their critical temperatures.
- 4 patents covering other superconducting technologies, which expire between 2013 and 2015.

As of December 31, 2008, we also had 15 issued foreign patents, 25 U.S. patent applications pending and 44 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.
- *Reconfigurable Handset Filters*. The trend in the wireless handset industry is to continually reduce size and cost, while adding more features and making the unit more adaptable to different air interfaces and frequencies throughout the world. This drives the need for more complex and reconfigurable transceivers. We believe our strong intellectual property and expertise in frequency agile and thin film filters position us well to meet this demand.
- *Superconducting Power Transmission Lines*. We have entered into a collaborative effort and signed a Material Transfer Agreement with the Department of Energy's Los Alamos National Laboratory ("LANL") to apply our

HTS expertise to LANL's research initiative to develop HTS coated conductors for power transmission lines. If successfully developed, HTS superconducting cables could replace copper power transmission lines, resulting in higher capacity with less resistive cable losses.

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

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

Our Business Model

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

Government Contracts

We generate significant revenues from government contracts. 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 anytime it wants for any reason or no reason, as well as for default;
- reduce or modify contracts or subcontracts, if its requirements or budgetary constraints change;
- cancel or reduce multi-year contracts and related orders, if funds for contract performance for any subsequent year become unavailable;
- adjust reimbursable contract costs and fees on the basis of audits completed by its agencies through exercise of its oversight rights; and
- control or prohibit the export of products.

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

Commercial Applications

We have chosen to manufacture and sell certain commercial products on our own. To date, our commercial efforts have been focused on the design, manufacture, and sale of high performance infrastructure products for wireless voice and data applications. We have three current product lines, all of which relate to wireless base stations:

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

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

Joint Ventures

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

Licenses

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

Recent Developments

Operating Lease

In February 2009, we amended our office and production facilities lease. The base rent and the minimum annual escalation clause were reduced, and the term of the lease was extended five years to November 2016.

Contract Funding

In March 2009, the second phase of our U.S. Air Force contract was funded for an additional twelve months and provides for progress billing of up to $4.1 million.

Backlog

Our commercial backlog consists of accepted product purchase orders with scheduled delivery dates during the next twelve months. We had commercial backlog of $272,000 at December 31, 2008, as compared to $352,000 at December 31, 2007.

Results of Operations

2008 Compared to 2007

Net revenues decreased by $6.6 million, or 37%, to $11.3 million in 2008 from $17.9 million in 2007. Net revenues consist primarily of commercial product revenues and government contract revenues. We also generate some additional revenues from sublicensing our technology.

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

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

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

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 recognizes 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 2007 and 2008:

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

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

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

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

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

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

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

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

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

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

2007 Compared to 2006

Net revenues decreased by $3.2 million, or 15%, from $21.1 million in 2006 to $17.9 million in 2007.

Net commercial product revenues decreased by $4.9 million, or 28%, to $12.8 million in 2007 from $17.7 million in 2006. The decrease is primarily the result of lower sales volume for some or our products. Average sales prices for our products decreased only slightly in 2007. Our two largest customers accounted for 75% of our net commercial revenues in 2007, as compared to 76% in 2006. 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 increased to $5.1 million in 2007 from $3.4 million in 2006, an increase of $1.7 million, or 52%. This increase is primarily attributable to the addition of new or amended contracts in 2007.

The cost of commercial product revenues totaled $12.9 million for 2007 as compared to $15.9 million for 2006, a decrease of $3.0 million, or 19%. The lower costs resulted principally from lower production as a result of lower sales. In addition, with lower production, we had fewer units to absorb our fixed overhead costs. Our provision for obsolete inventories decreased to $160,000 in 2007 as compared to $360,000 in 2006.

The following is an analysis of our commercial product gross profit margins for 2006 and 2007:

	Years Ended December 31,			
Dollars in Thousands	2006		2007	
Net commercial product sales	$ 17,697	100.0%	$ 12,787	100.0%
Cost of commercial product sales	15,922	90%	12,944	101.2%
Gross profit	$ 1,775	10%	$ (157)	(1.2%)

We had a negative gross margin of $157,000 in 2007 from the sale of our commercial products as compared to a positive gross margin of $1.8 million in 2006. We experienced negative gross profits in 2007 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 $160,000 charge for excess and obsolete inventory. Gross margins were favorably impacted by $195,000 in 2007 and $700,000 in 2006 by the sale of previously written-off inventory. 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.

Contract research and development expenses totaled $2.9 million in 2007 as compared to $2.4 million in 2006, an increase of $499,000 or 21%. The increase was primarily the result of higher expenses associated with performing a greater number of government contracts. As a percentage of Government contract revenues, contract research and development expenses was 72% in 2006 and 57% in 2007.

Other research and development expenses relate to development of new wireless commercial products. We also incur design expenses associated with reducing the cost and improving the manufacturability of our existing products. These expenses totaled $3.2 million in 2007 as compared to $3.5 million in 2006, a decrease of $316,000, or 9%. The decrease is due to lower expenses associated with commercial products development and the result of our cost reduction efforts.

Selling, general and administrative expenses totaled $8.1 million in 2007 as compared to $9.1 million in 2006, a decrease of $1.0 million, or 11%. The lower expenses resulted primarily from $610,000 received from a settlement agreement with a former director and lower insurance premiums.

In connection with the acquisition of Conductus in December 2002 we recognized $20.1 million of goodwill. At July 1, 2006, we concluded that our declining stock price constituted an event under FAS 142 and required us to test for goodwill impairment. Our analysis led us to reasonably estimate at that time that our fair market value was less than our net assets excluding goodwill. Accordingly, we recorded a full write-down of the goodwill ($20.1 million) in the second quarter of 2006. We also recorded an impairment charge of $38,000 related to a note receivable from a Board member in 2006.

Interest income decreased to $156,000 in 2007, as compared to $391,000 in 2006, primarily because of lower cash balances in 2007.

Interest expense in 2007 amounted to $39,000, as compared to $45,000 in 2006, as a result of lower borrowing levels.

Our loss totaled $9.1 million in 2007 as compared to $29.6 million in 2006.

The net loss available to common stockholders totaled $0.73 per common share in 2007, as compared to $2.37 per common share in 2006.

Liquidity and Capital Resources

Cash Flow Analysis

As of December 31, 2008, we had working capital of $12.3 million, including $7.6 million in cash and cash equivalents, as compared to working capital of $3.3 million at December 31, 2007, which included $3.9 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. We believe that all of our cash investments would be readily available to us should the need arise.

Cash and cash equivalents increased by $3.7 million from $3.9 million at December 31, 2007 to $7.6 million at December 31, 2008. Cash was used principally in operations and to a lesser extent for our joint venture and the purchase of property and equipment. These uses were offset by gross cash proceeds of $16.5 million provided by the sales of common and preferred stock.

Cash used in operations totaled $12.1 million in 2008. We used $10.4 million to fund the cash portion of our net loss. We also used cash to fund a $3.8 million increase in inventory, accounts payable payments, patents and licenses payments and prepaid and other current asset payments. These uses were offset by cash generated from lower accounts receivable and other assets totaling $2.1 million.

Net cash used in investing activities totaled $700,000 in 2008. We invested $521,000 in our joint venture and we purchased $179,000 in fixed assets.

Net cash provided by financing activities totaled $16.5 million in 2008. The cash was provided by $10.9 million, net of $89,000 in expenses, from the final payments under the $15.0 million August 2007 BAOLI investment and $5.6 million, net of $442,000 in expenses, from the sale of 2,000,000 shares of common stock at $3.00 per share in May 2008. Net cash provided by financing activities totaled $4.0 million in 2007.

Financing Activities

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

As described above, we completed two financing activities in 2008 totaling $16.5 million: the balance of the $15.0 million BAOLI investment and a $5.6 million offering of common stock in May 2008.

In 2007, we did not complete a financing transaction. However, in 2007, we received $4.0 million from BAOLI as an installment toward completion of a $15.0 million financing completed in February 2008.

We have an existing line of credit from a bank. The line of credit expires in July 2009. The loan agreement is structured as a sale of our accounts receivable and provides for the sale of up to $5.0 million of eligible accounts receivable, with advances to us totaling 80% of the receivables sold. Advances bear interest at the prime rate (3.25% at December 31, 2008) 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, 2008.

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 copier leases.

- *Patents and Licenses*

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

- *Purchase Commitments*

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

- *Quantitative Summary of Contractual Obligations and Commercial Commitments*

At December 31, 2008, we had the following contractual obligations and commercial commitments:

	Payments Due by Period				
Contractual Obligations	**Total**	**2009**	**2010 and 2011**	**2012 and 2013**	**2014 and beyond**
Operating leases	$ 4,463,000	$ 1,480,000	$ 2,973,000	$ 10,000	—
Minimum license commitment	1,650,000	150,000	300,000	300,000	900,000
Fixed asset and inventory purchase commitments	310,000	310,000	—	—	—
Total contractual cash obligations	$ 6,423,000	$ 1,940,000	$ 3,273,000	$ 310,000	$ 900,000

Capital Expenditures

We plan to invest approximately $270,000 in fixed assets during 2009.

Future Liquidity

In 2008, we incurred a net loss of $12.7 million and had negative cash flows from operations of $12.1 million. In 2007, we incurred a net loss of $9.1 million and had negative cash flows from operations of $5.4 million. Our independent registered public accounting firm has included in their audit reports for fiscal 2008 through 2006 an explanatory paragraph expressing doubt about our ability to continue as a going concern.

At December 31, 2008 we had $7.6 million in cash. Our cash resources, together with our line of credit, and a planned inventory reduction, may not be sufficient to fund our business through 2009. We believe one of the key factors to our liquidity will be our ability to successfully execute on our plans to increase sales levels in a highly concentrated industry where we experience significant fluctuations in sales from quarter to quarter. Our cash requirements will also depend on numerous other variable factors, including the rate of growth of sales, the timing and levels of products purchased, payment terms and credit limits from manufacturers, and the timing and level of accounts receivable collections. Because of the uncertainty of these many factors, we may need to raise funds in the next six months to meet our working capital needs.

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

Net Operating Loss Carryforward

As of December 31, 2008, we had net operating loss carryforwards for federal and state income tax purposes of approximately $291.4 million and $168.8 million, respectively, which expire in the years 2009 through 2028. Of these amounts, $88.3 million and $23.5 million, respectively, resulted from the acquisition of Conductus. Included in the net operating loss carryforwards are deductions related to stock options of approximately $24.1 million and $13.1 million for federal and California income tax purposes, respectively. To the extent net operating loss carryforwards are recognized for accounting purposes, the resulting benefits related to the stock options will be credited to stockholders' equity. In addition, we had research and development and other tax credits for federal and state income tax purposes of approximately $3.0 million and $1.4 million, respectively, which expire in the years 2009 through 2028. Of these amounts, $661,000 and $736,000, respectively, resulted from the acquisition of Conductus.

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

Section 382 of the Internal Revenue Code imposes an annual limitation on the utilization of net operating loss carryforwards 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 and December 2002. In addition, we acquired the right to Conductus' net operating losses, which are also subject to the limitations imposed by Section 382. Conductus underwent three ownership changes, which occurred in February 1999, February 2001 and December 2002. Therefore, the ability to utilize our net operating loss carryforwards of $94.3 million and Conductus' net operating loss carryforwards of $83.7 million incurred prior to the ownership changes will be subject in future periods to annual limitations of $1.3 million and $700,000, respectively. Net operating losses incurred by us subsequent to the ownership changes totaled $113.4 million and are not subject to this limitation.

Recent Accounting Pronouncements

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

Market Risk

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

At December 31, 2008, we had approximately $7.2 million invested in a money market account yielding approximately 1.72%. Assuming a 1% per annum decrease in the yield on this money market account and no liquidation of principal for the year, our total interest income would decrease by approximately $72,000 per annum. As we had no amounts outstanding on our bank loan during 2008, changes in its interest rate would not have affected us.

Inflation

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

Critical Accounting Policies and Estimates

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

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

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

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

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

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

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

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

We apply the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment," which establishes the accounting for stock-based awards. Under this method, stock-based employee compensation cost is recognized using the fair-value based method for all awards granted on or after the beginning of fiscal year 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.

We have 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 we now expect to deliver these custom products in July 2009.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Market Risk*."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not applicable.

ITEM 9A(T). CONTROLS AND PROCEDURES

Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to us and our consolidated subsidiaries is made known to the officers who certify the Company's financial reports, as well as other members of senior management and the Board of Directors, to allow timely decisions regarding required disclosures. As of the end of the period covered by this report we carried out an evaluation under the supervision and with the participation of our management, including the our Chief Executive Officer and Controller ("Principal Financial Officer"), of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities and Exchange Act of 1934. Based upon that evaluation, the Chief Executive Officer and Controller concluded that our disclosure controls and procedures are effective in timely alerting them to material information related to us that is required to be included in our annual and periodic Securities and Exchange Commission filings.

There were no changes in our internal controls over financial reporting during the fourth quarter of the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

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

Management's Report on Internal Control Over Financial Reporting

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

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Our management assessed the effectiveness of our internal controls over financial reporting as of December 31, 2008. 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, 2008, our internal control over financial reporting are effective. This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We have a Code of Business Conduct and Ethics for all of our employees, including our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer. The purpose of the code is to ensure that our business is conducted in a consistently legal and ethical matter. We have posted the text of the code on our website at www.suptech.com. We will post any material amendments or waivers to the code on our website. We will provide a copy of our code free of charge to any person upon request by writing to us at the following address: Superconductor Technologies Inc., 460 Ward Drive, Santa Barbara, California 93111-2310, Attn: Corporate Secretary.

All of the other information required by this Item is incorporated by reference to our Proxy Statement for the 2009 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, 2008.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our Proxy Statement for the 2009 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, 2008.

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 2009 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, 2008.

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 2009 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, 2008.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND DISCLOSURES

The information required by this item is incorporated by reference to our Proxy Statement for the 2009 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, 2008.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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

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	Amended and Restated Certificate of Incorporation of Registrant (2)
3.2	Certificate of Amendment of Restated Certificate of Incorporation (5)
3.3	Certificate of Amendment of Restated Certificate of Incorporation (17)
3.4	Certificate of Designations of Registrant relating to the Series A Convertible Preferred Stock (22)
3.5	Amended and Restated Bylaws of Registrant (14)
4.1	Form of Common Stock Certificate (23)
4.2	Form of Warrant to Purchase Common Stock dated March 28, 2003, issued to Silicon Valley Bank (7)
4.3	Form of Warrant dated August 2005 (15)

Number	Description of Document
10.1	1992 Stock Option Plan (23) ***
10.2	Form of 1992 Stock Option Agreement (23) ***
10.3	1992 Director Option Plan (as amended through January 1997) (1)
10.4	Form of 1992 Director Stock Option Agreement (1)
10.5	1998 Non-Statutory Stock Option Plan, including Form of Stock Option Agreement (4)***
10.6	1999 Stock Option Plan (3) ***
10.7	Form of 1999 Stock Option Agreement (3) ***
10.8	Form of Change in Control Agreement dated March 28, 2003 (7) ***
10.9	Form of Amendment No. 1 to Change in Control Agreement dated as of May 24, 2005 (16) ***
10.10	Form of Amendment No. 2 to Change in Control Agreement dated as of December 31, 2006 (19) ***
10.11	Accounts Receivable Purchase Agreement by and between Registrant and Silicon Valley Bank dated March 28, 2003 (7)
10.12	Accounts Receivable Purchase Modification Agreement by and between Registrant and Silicon Valley Bank dated March 17, 2004 (9)
10.13	Accounts Receivable Purchase Modification Agreement by and between Registrant and Silicon Valley Bank dated March 16, 2005 (13)
10.14	Accounts Receivable Purchase Modification Agreement by and between Registrant and Silicon Valley Bank dated July 13, 2008 (23)
10.15	Patent License Agreement by and between Registrant and Lucent Technologies (8) **
10.16	License Agreement between Registrant and Sunpower dated May 2, 2005 (10) **
10.17	Employment Agreement between Registrant and Jeffrey Quiram dated as of February 14, 2005 (11) ***
10.18	Option Agreement between Registrant and Jeffrey Quiram dated February 14, 2005 (11) ***
10.19	Amendment to Employment Agreement between Registrant and Jeffrey Quiram dated as of December 31, 2006 (19) ***
10.20	2003 Equity Incentive Plan (as amended May 25, 2005) (14) ***
10.21	Form of Option Agreement for 2003 Equity Incentive Plan (11) ***
10.22	Management Incentive Plan (18) ***
10.23	Employment Agreement between Registrant and Terry White dated as of April 11, 2005 (12) ***
10.24	Amendment to Employment Agreement between Registrant and Terry White dated as of December 31, 2006 (19) ***
10.25	Form of Director and Officer Indemnification Agreement (16)
10.26	Code of Business Conduct and Ethics (15)
10.27	Lease Agreement between the Registrant and 1200 Enterprises LLC dated as of June 1, 2001 (6)
10.28	Investment agreement between Registrant and Hunchun BaoLi Communication Co. Ltd. (“BAOLI”) dated August 17, 2007 (20)
10.29	First amendment to investment agreement between Registrant and BAOLI dated November 9, 2007 (21)

10.30	Second amendment to investment agreement between Registrant and BAOLI dated January 8, 2008 (21)
10.31	Framework Agreement between Registrant and BAOLI dated November 8, 2007 (21)
10.32	Sino-Foreign Equity Joint Venture between Superconductor Investments (Mauritius) Limited and BAOLI dated December 8, 2007 (Exhibit A to Framework Agreement with BAOLI) (21)
10.33	Form of License Agreement between Registrant and BAOLI (Exhibit B to Framework Agreement) (21)
21	List of Subsidiaries (23)

Number	Description of Document
23.1	Consent of Stonefield Josephson Inc, Independent Registered Public Accounting Firm (23)
31.1	Statement of CEO Pursuant to 302 of the Sarbanes-Oxley Act of 2002 (23)
31.2	Statement of CFO Pursuant to 302 of the Sarbanes-Oxley Act of 2002 (23)
32.1	Statement of CEO Pursuant to 906 of the Sarbanes-Oxley Act of 2002 (23)
32.2	Statement of CFO Pursuant to 906 of the Sarbanes-Oxley Act of 2002 (23)

(1) Incorporated by reference from Registrant's Registration Statement on Form S-8 filed April 15, 1998 (Reg. No. 33-50137).
(2) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended April 3, 1999.
(3) Incorporated by reference from Registrant's Registration Statement on Form S-8 filed November 4, 1999 (Reg. No. 333-90293).
(4) Incorporated by reference from Registrant's Registration Statement on Form S-8 filed March 6, 2001 (Reg. No. 333-56606).
(5) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
(6) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
(7) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 2003.
(8) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2003.
(9) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended April 3, 2004.
(10) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004
(11) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.
(12) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended April 2, 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 Current Report on Form 8-K filed August 11, 2005.
(16) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2005
(17) Incorporated by reference from Registrant's Current Report on Form 8-K filed March 13, 2006.
(18) Incorporated by reference from Registrant's Current Report on Form 8-K filed July 28, 2006.
(19) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2006
(20) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended September 29, 2007.
(21) Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended December 31, 2007.
(22) Incorporated by reference from Registrant's Current Report on Form 8-K/A filed February 25, 2008.
(23) Filed herewith.
** Confidential treatment has been previously granted for certain portions of these exhibits.
*** This exhibit is a management contract or compensatory plan or arrangement.

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

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Superconductor Technologies, Inc. (the "Company") and its subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15(a)(2) as of and for the three years ended December 31, 2008. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related consolidated financial statement schedule as of and for the three years ended December 31, 2008, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. As discussed in Note 2, the Company has incurred significant net losses since its inception and has an accumulated deficit of $212,686,000 and expects to incur substantial additional losses and costs. The foregoing matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 2 of the accompanying financial statements. These financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ Stonefield Josephson, Inc.

Los Angeles, California

March 19, 2009

SUPERCONDUCTOR TECHNOLOGIES INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2007	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 3,939,000	$ 7,569,000
Accounts receivable, net	2,413,000	355,000
Inventory, net	3,415,000	5,278,000
Prepaid expenses and other current assets	442,000	416,000
Total Current Assets	**10,209,000**	**13,618,000**
Property and equipment, net of accumulated depreciation of $19,129,000 and $19,943,000, respectively	3,961,000	2,739,000
Patents, licenses and purchased technology, net of accumulated amortization of $1,722,000 and $2,055,000, respectively	2,236,000	2,252,000
Investment in joint venture	—	521,000
Other assets	219,000	228,000
Total Assets	**$ 16,625,000**	**$ 19,358,000**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,467,000	$ 707,000
Accrued expenses	1,405,000	578,000
Proceeds for shares to be issued	4,000,000	—
Current portion of capitalized lease obligations	45,000	80,000
Total Current Liabilities	**6,917,000**	**1,365,000**
Other long term liabilities	518,000	441,000
Total Liabilities	**7,435,000**	**1,806,000**
Commitments and contingencies (Notes 9, 10 and 11)		
Stockholders' Equity:		
Preferred stock, $.001 par value, 2,000,000 shares authorized, zero and 611,523 issued and outstanding, respectively	—	1,000
Common stock, $.001 par value, 250,000,000 shares authorized, 12,511,414 and 17,869,030 shares issued and outstanding, respectively	12,000	18,000
Capital in excess of par value	209,163,000	230,219,000
Accumulated deficit	(199,985,000)	(212,686,000)
Total Stockholders' Equity	**9,190,000**	**17,552,000**
Total Liabilities and Stockholders' Equity	**$ 16,625,000**	**$ 19,358,000**

See accompanying notes to the consolidated financial statements

SUPERCONDUCTOR TECHNOLOGIES INC.

CONSOLIDATED STATEMENT OF OPERATIONS

	Years Ended December 31, 2006	2007	2008
Net revenues:			
Net commercial product revenues	$ 17,697,000	$ 12,787,000	$ 6,768,000
Government and other contract revenues	3,361,000	5,115,000	4,525,000
Sub license royalties	20,000	—	—
Total net revenues	**21,078,000**	**17,902,000**	**11,293,000**
Costs and expenses:			
Cost of commercial product revenues	15,922,000	12,944,000	8,911,000
Contract research and development	2,407,000	2,906,000	3,649,000
Other research and development	3,488,000	3,172,000	3,394,000
Selling, general and administrative	9,086,000	8,123,000	8,151,000
Restructuring expenses and impairment charges	38,000	—	141,000
Write off Goodwill	20,107,000	—	—
Total costs and expenses	**51,048,000**	**27,145,000**	**24,246,000**
Loss from operations	(29,970,000)	(9,243,000)	(12,953,000)
Interest income	391,000	156,000	284,000
Interest expense	(45,000)	(39,000)	(32,000)
Net loss	**$ (29,624,000)**	**$ (9,126,000)**	**$ (12,701,000)**
Basic and diluted net loss per common share	**$ (2.37)**	**$ (0.73)**	**$ (0.77)**
Basic and diluted weighted average number of common shares outstanding	**12,483,367**	**12,487,593**	**16,402,509**

See accompanying notes to the consolidated financial statements

SUPERCONDUCTOR TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Convertible Preferred Stock		Common Stock		Capital in Excess of	Receivable From	Accumulated	
	Shares	Amount	Shares	Amount	Par Value	Stockholder	Deficit	Total
Balance at December 31, 2005	—	—	12,483,431	$ 12,000	$ 208,545,000	$ (65,000)	$ (161,235,000)	$ 47,257,000
Issuance of common stock and warrants			(64)					
Issuance of options					280,000			280,000
Reserve for impairment						38,000		38,000
Net loss							(29,624,000)	(29,624,000)
Balance at December 31, 2006	—	—	12,483,367	12,000	208,825,000	(27,000)	(190,859,000)	17,951,000
Exercise of stock options			3,350		26,000			26,000
Issuance of common stock					(27,000)			(27,000)
Issuance of options and warrants			24,697		339,000			339,000
Reserve for impairment						27,000		27,000
Net loss							(9,126,000)	(9,126,000)
Balance at December 31, 2007	—	—	12,511,414	$ 12,000	$ 209,163,000	$ —	$ (199,985,000)	$ 9,190,000
Exercise of stock options								
Issuance of common stock			5,101,361	5,000	10,563,000			10,568,000
Issuance of options/awards and warrants			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

See accompanying notes to the consolidated financial statements.

SUPERCONDUCTOR TECHNOLOGIES INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended December 31, 2006	2007	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (29,624,000)	$ (9,126,000)	$ (12,701,000)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	2,600,000	2,333,000	1,735,000
Warrants and options charges	280,000	339,000	587,000
Provision for excess and obsolete inventories	360,000	160,000	17,000
Reserve for impairment of note and interest receivable from stockholder	38,000	(583,000)	—
Write off Goodwill	20,107,000	—	—
Changes in assets and liabilities:			
Accounts receivable	631,000	(877,000)	2,057,000
Inventory	(974,000)	2,403,000	(1,880,000)
Prepaid expenses and other current assets	115,000	574,000	(26,000)
Patents and licenses	(217,000)	(169,000)	(315,000)
Other assets	128,000	16,000	9,000
Accounts payable and accrued expenses	(727,000)	(465,000)	(1,603,000)
Net cash used in operating activities	(7,283,000)	(5,395,000)	(12,120,000)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the sale of property and equipment	—	26,000	—
Purchase of property and equipment	(229,000)	(191,000)	(179,000)
Investment in joint venture	—	—	(521,000)
Net cash used in investing activities	(229,000)	(165,000)	(700,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from shares to be issued	—	4,000,000	—
Payments on long-term obligations	(19,000)	(14,000)	—
Gross proceeds from sale of common stock and exercise of warrants and options	—	26,000	16,450,000
Net cash provided by (used in) financing activities	(19,000)	4,012,000	16,450,000
Net increase (decrease) in cash and cash equivalents	(7,531,000)	(1,548,000)	3,630,000
Cash and cash equivalents at beginning of year	13,018,000	5,487,000	3,939,000
Cash and cash equivalents at end of year	$ 5,487,000	$ 3,939,000	$ 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 and maintains its headquarters in Santa Barbara, California. We operate in a single industry segment, the research, development, manufacture and marketing of high-performance infrastructure products for wireless voice and data applications. Our current commercial products are divided into three product offerings: SuperLink (high-temperature superconducting filters), AmpLink (high performance, ground-mounted amplifiers) and SuperPlex (high performance multiplexers). Our research and development contracts are used as a source of funds for our commercial technology development. From 1987 to 1997, we were engaged primarily in research and development and generated revenues primarily from government research contracts.

We continue to be involved as either contractor or subcontractor on a number of contracts with the United States government. These contracts have been and continue to provide a significant source of revenues for us. For 2006, 2007 and 2008, government related contracts account for 16%, 29%, and 40%, respectively, of our net revenues.

Note 2 — Summary of Significant Accounting Policies

Basis of Presentation

In 2008, we incurred a net loss of $12.7 million and had negative cash flows from operations of $12.1 million. In 2007, we incurred a net loss of $9.1 million and had negative cash flows from operations of $5.4 million.

At December 31, 2008 we had $7.6 million in cash. Our cash resources, together with our line of credit, and a planned inventory reduction, may not be sufficient to fund our business through 2009. We believe one of the key factors to our liquidity will be our ability to successfully execute on our plans to increase sales levels in a highly concentrated industry where we experience significant fluctuations in sales from quarter to quarter. Our cash requirements will also depend on numerous other variable factors, including the rate of growth of sales, the timing and levels of products purchased, payment terms and credit limits from manufacturers, and the timing and level of accounts receivable collections. Because of the uncertainty of these many factors, we may need to raise funds in the next six months to meet our working capital needs.

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

Principles of Consolidation

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

Cash and Cash Equivalents

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

Accounts Receivable

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

Revenue Recognition

Commercial revenues are principally derived from the sale of our SuperLink, AmpLink and SuperPlex family of products and are recognized once all of the following conditions have been met: a) an authorized purchase order has been received in writing, b) 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 administration expenses. In 2008, we disposed of older, fully depreciated equipment with an acquisition cost of $598,000. There was no gain or loss on said disposition.

Patents, Licenses and Purchased Technology

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

Goodwill

Goodwill represents the excess of purchase price over fair value of net assets acquired in connection with the acquisition of Conductus in 2002. Conductus was acquired primarily for the synergies the acquisition would bring to our existing business of developing, manufacturing and marketing products for the commercial wireless telecommunications business and for the synergies it would have on our fund raising abilities.

At July 2006, our market capitalization had declined to $25.5 million, an amount less than our total book value. We concluded that our declining stock price constituted an event under FAS 142 and required us to test for goodwill impairment as of July 2006. Our analysis led us to reasonably estimate at that time that our fair market value was less than our net assets excluding goodwill. Accordingly, we recorded a full write-down of the goodwill ($20.1 million) in the second quarter 2006.

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 fiscal 2008 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

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes*, which requires that the Company 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.

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 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. FIN 48 also sets out disclosure requirements to enhance transparency of our tax reserves. We adopted FIN 48 effective January 1, 2007, and the provisions of FIN 48 have been applied to all income tax positions commencing from that date. There was no material impact from this adoption. As of December 31, 2008, we had net operating loss carryforwards for federal and state income tax purposes of approximately $291.4 million and $168.8 million, respectively. Due to the uncertainty surrounding their realization, we recorded a full valuation allowance against our net deferred tax assets. Accordingly, no deferred tax asset has been recorded in the accompanying balance sheet.

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, 2008.

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. Potential common shares are not included in the calculation of diluted loss per share because their effect is anti-dilutive.

Stock-based Compensation

Effective January 1, 2006, we adopted the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"). Compensation cost under SFAS No. 123(R) is recognized ratably using the straight-line attribution method over the expected vesting period. Prior periods are not restated under this transition method.

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:

	2006	2007	2008
Cost of revenue	6,000	14,000	22,000
Research and development	23,000	56,000	122,000
Selling, general and administrative	251,000	269,000	443,000
Total stock-based compensation expense	$ 280,000	$ 339,000	$ 587,000

The impact to the Consolidated Statement of Operations for 2008, 2007 and 2006 on basic and diluted earnings per share was $0.04, $0.03 and $0.02, respectively. No stock compensation cost was capitalized during the periods.

Use of Estimates

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

Fair Value of Financial Instruments

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

Comprehensive Income

We have no items of other comprehensive income in any period and consequently do not report 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. Net commercial product revenues are primarily derived 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 statement of operations for all periods presented.

Reverse Stock Split

On March 13, 2006, we made a one-for-ten (1:10) reverse stock split effective as of the open of business. All results prior to that time have been adjusted to reflect the impact of that split.

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 2008, we had two customers that represented 44% and 13% of total net revenues. At December 31, 2007, these two customers represented 26% and 15% of accounts receivable. In 2006, we had three customers that represented 44%, 20% and 16% of total net revenues. 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 one supplier for purchase of high quality substrates for growth of high-temperature superconductor films and on a limited number of suppliers for other key components of our products. The loss of any of these suppliers could have material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

Recent Accounting Pronouncements

In January 2009, the FASB issued FSP EITF 99-20-1, “Amendments to the Impairment Guidance of EITF Issue No. 99-20” (FSP EITF 99-20-1). FSP EITF 99-20-1 amends the impairment guidance in EITF Issue No. 99-20, “Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets”, to achieve more consistent determinations of whether an other-than-temporary impairment has occurred. FSP EITF 99-20-1 also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities”, and other related guidance. FSP EITF 99-20-1 is effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted. The implementation of this standard did not have a material impact on our consolidated financial statements.

In December, 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, “*Disclosures Related to Asset Transfers, and Interests in Variable Interest Entities* ”, which requires public companies to provide disclosures similar to those proposed in the pending amendments to Statement 140 and Interpretation 46(R). The FSP requires additional disclosures about transfers of financial assets and an enterprise’s involvement with variable interest entities. These disclosures should help improve transparency in the current market environment. The FSP is effective for the first reporting period (interim or annual) that ends after December 15, 2008. The adoption of this position did not have a material effect on our consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (“SFAS No. 162”). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS No. 162 will become effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. We do not expect the adoption of SFAS No. 162 to have a material effect on our consolidated results of operations and financial condition.

In April 2008, the FASB issued FASB Staff Position No. 142-3 (“FSP No. 142-3”), *Determination of the Useful Life of Intangible Assets*. FSP No. 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142, *Goodwill and Other Intangible Assets*. This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP No. 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. We are currently evaluating the effect that the adoption of FSP No. 142-3 will have on our consolidated results of operations and financial condition.

In February 2008, the FASB issued FSP 157-2 “Partial Deferral of the Effective Date of Statement 157” (FSP 157-2). FSP 157-2 delays the effective date of SFAS No. 157, for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. We are currently assessing the impact of SFAS No. 157 for non-financial assets and non-financial liabilities on our consolidated financial position and results of operations. We do not expect that the implementation of this standard, for financial assets and financial liabilities, will have a material impact on our consolidated financial position or results of operations.

Note 3-Short Term Borrowings

We have a line of credit with a bank. The line of credit expires July 2009 and is structured as a sale of accounts receivable. The agreement provides for the sale of up to $5 million of eligible accounts receivable, with advances to us totaling 80% of the receivables sold. Advances 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.

Advances bear interest at the prime rate (3.25% at December 31, 2008) plus 2.50% subject to a minimum monthly charge. There was no amount outstanding under this borrowing facility at December 31, 2008.

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 shareholders do not hold a majority of the voting rights of the surviving entity, (f) transactions outside the normal course of business, or (g) payment of dividends.

Note 4 — Notes Receivable From Stockholder

A former director and stockholder executed two notes aggregating $820,244 in principal amount in connection with the exercise in December 2000 of two options. Through the third quarter of, 2005, we carried the principal (as "Notes Receivable from Stockholder") and accrued interest (as "Prepaid Expenses and Other Current Assets") for both notes as assets on our balance sheet. In December 2005, we filed a lawsuit to collect both notes and recorded a reserve for the value of the notes (principal plus accrued interest) in excess of the market value of the collateral securing the notes. In 2007, we received $610,000 in full satisfaction of our claims including interest and attorneys' fees, and then rescinded the second purported option exercise and canceled the related note.

Note 5 — Income Taxes

We incurred a net loss in each year of operation since inception resulting in no current or deferred tax expense for 2006, 2007 and 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 2006, 2007 and 2008 as follows:

	2006	2007	2008
Tax benefit computed at Federal statutory rate	34.0%	34.0%	34.0%
Increase (decrease) in taxes due to:			
Change in valuation allowance	(16.7)	(39.8)	(39.8)
State taxes, net of federal benefit	5.8	5.8	5.8
Impairment of Goodwill (not deductible for tax)	(23.1)	—	—
	—%	—%	—%

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

	2007	2008
Loss carryforwards	$ 105,460,000	$ 108,940,000
Capitalized research and development	2,710,000	1,468,000
Depreciation	2,582,000	2,541,000
Tax credits	3,822,000	3,916,000
Inventory	415,000	343,000
Purchase accounting adjustments	46,000	—
Acquired intellectual property	(190,000)	(90,000)
Other	437,000	540,000
Less: valuation allowance	(115,282,000)	(117,658,000)
	$ —	$ —

The valuation allowance increased by $2,376,000 in 2008, $3,129,000 in 2007 and $5,854,000 in 2006.

As of December 31, 2008, we had net operating loss carryforwards for federal and state income tax purposes of approximately $291.4 million and $168.8 million**,** respectively, which expire in the years 2009 through 2028. Of these amounts $88.3 million and $23.5 million, respectively, resulted from the acquisition of Conductus. Included in the net operating loss carryforwards are deductions related to stock options of approximately $24.1 million and $13.1 million for federal and California income tax purposes, respectively. To the extent net operating loss carryforwards are recognized for accounting purposes the resulting benefits related to the stock options will be credited to stockholders' equity. In addition, we had research and development and other tax credits for federal and state income tax purposes of approximately $3.0 million and $1.4 million, respectively, which expire in the years 2009 through 2028. Of these amounts $661,000 and $736,000, respectively resulted from the acquisition of Conductus.

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

Section 382 of the Internal Revenue Code imposes an annual limitation on the utilization of net operating loss carryforwards 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 and December 2002. In addition, we acquired the right to Conductus' net operating losses, which are also subject to the limitations imposed by Section 382. Conductus underwent three ownership changes, which occurred in February 1999, February 2001and December 2002. Therefore, the ability to utilize our net operating loss carryforwards of $94.3 million incurred prior to the ownership changes and Conductus' net operating loss carryforwards of $83.7 million incurred prior to the ownership changes will be subject in future periods to an annual limitation of $1.3 million and $700,000, respectively. Net operating losses incurred by us subsequent to the ownership changes totaled $113.4 million and are not subject to this limitation.

Note 6 — 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 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 had been 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. In accordance with EITF issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF Issue No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Securities", there is no beneficial conversion feature related to the conversion of the preferred shares, as the value of the common shares into which the preferred shares convert does not exceed the recorded amount of the preferred at date of issuance. Except as required by law, the Series A Preferred Stock does not have any voting rights.

Common Stock

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

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

Other than the $4 million cash deposit on the BAOLI stock sale described above, we raised no money from the sale of our common stock in 2007 or 2006.

Equity Awards

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

At December 31, 2008, 1,066,019 shares of common stock were available for future grants under the 2003 Equity Incentive Plan.

There were no stock option exercises in 2008 or 2006; 3,350 shares were issued on option exercises in 2007.

For 2006, 2007 and 2008, 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:

	2006	2007	2008
Per share fair value at grant date	$2.55	$2.15	$3.57
Risk free interest rate	4.82%	4.34%	2.47%
Expected volatility	95%	98%	109%
Dividend yield	0%	0%	0%
Expected life in years	4.0	4.0	4.0

The expected life was based on the contractual term of the options and the expected employee exercise behavior. Typically, options to our employees have a 3 or 4 year vesting term and a 10 year contractual term. Options vest at 33% or 25%, respectively, after one year and thereafter vest ratably on a monthly basis. Options to Board Members have a 10 year contractual term and vest 50% after one year and 50% after two years. The risk-free interest rate is based on the U. S. Treasury zero-coupon issues with a remaining term equal to the expected option life assumed at the grant date. The future volatility is based on our 4 year historical volatility. We used an expected dividend yield of 0% because we have never paid a dividend and do not anticipate paying dividends. We assumed a 10% forfeiture rate based on historical stock option cancellation rates over the last 4 years.

The impact of the stock options to the Consolidated Statement of Operations for 2008, 2007 and 2006 on net income was an expense of $453,000, $115,000 and $187,000 and $0.03, $0.01 and $0.01, respectively, on both basic and diluted earnings per share. No stock compensation cost was capitalized during the periods. The total compensation cost related to non-vested awards not yet recognized is $1.6 million and the weighted-average period over which the cost is expected to be recognized is 3.1 years.

At December 31, 2008, 1,066,019 shares of common stock were available for future grants and options covering 1,234,025 shares were outstanding but not yet exercised. Option activity during the three years ended December 31, 2008 was as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2005	**1,202,376**	**$40.38**
Granted	80,900	3.70
Canceled	(128,335)	34.64
Exercised	—	—
Outstanding at December 31, 2006	**1,154,941**	**38.33**
Granted	45,670	2.96
Canceled	(455,403)	41.68
Exercised	(3,350)	7.42
Outstanding at December 31, 2007	**741,858**	**34.24**
Granted	576,590	4.83
Canceled	(84,423)	9.60
Exercised	—	—
Outstanding at December 31, 2008	**1,234,025**	**$22.18**

The following table summarizes information concerning currently outstanding and exercisable stock options at December 31, 2008:

				Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$1.43 - $4.90	205,600	8.58	$ 3.67	56,992	$ 3.54
$5.12 - $5.80	412,927	9.13	$ 5.12	2,200	$ 5.31
$6.10 - $6.90	236,500	6.40	$ 6.89	236,500	$ 6.89
$7.02 - $39.38	209,077	3.44	$ 19.87	208,448	$ 19.90
$40.00 - $493.75	169,921	1.70	$110.20	169,921	$110.20
	1,234,025	6.53	$ 22.18	674,061	$ 36.67

Our outstanding options expire on various dates through July 2018. The weighted-average contractual term of stock options currently exercisable is slightly less than 4.4 years. At December 31, 2008, no outstanding stock options and no exercisable options had an exercise price less than the current market value or had any intrinsic value. The number of options exercisable and weighted average exercise price at December 31, 2007 and 2006 totaled 663,174 and $37.87 and 1,067,296 and $41.13, respectively.

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.

In September 2008, we issued restricted stock awards totaling 20,000 shares with a cliff vest after two years of service and a per share weighted average grant-date fair value of $1.62. A 10% forfeiture rate was assumed.

The impact to the Consolidated Statement of Operations for 2008 on net income was an expense of $134,000 and $0.01 on basic and diluted earnings per share. The 2007 and 2006 impact on net income was an expense of $223,000 and $93,000 and $0.02 and $0.01 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 awards not yet recognized is $25,000, and the weighted-average period over which the cost is expected to be recognized is 1.7 years.

Warrants

The following is a summary of outstanding warrants at December 31, 2008:

	Common Shares			
	Total	Currently Exercisable	Price per Share	Expiration Date
Warrants related to August 2005 financing	342,466	342,466	$ 6.74	August 16, 2010* **
Warrants related to April 2004 financing	10,000	10,000	18.50	April 28, 2011*
Total	352,466	352,466		

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

** These warrants contain special anti-dilution adjustment provisions relating to the price of other issuances. Under the issuances in 2008, the exercise price of these warrants was adjusted to $6.74.

No warrants were exercised during 2008 and 2006. During 2007, the BAOLI offering caused the exercise price and the number of shares of certain warrants issued in 2004 to be adjusted to $8.34 and 110,880, respectively. In November 2007, the holder of these warrants elected the net exercise provision of this warrant, and received 24,697 shares of our common stock.

Note 7 — 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 $287,000 to the 401(k) Plan in 2008 and we made no contributions to the 401(k) Plan in 2006 or 2007.

Note 8 — Commitments and Contingencies

Operating Leases

We lease our offices and production facilities under a non-cancelable operating lease that expires in four years. 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 2006, 2007 and 2008, rent expense was $1,152,000, $1,104,000 and $1,122,000, respectively.

Capital Leases

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

Patents and Licenses

We have entered into various licensing agreements requiring royalty payments ranging from 0.13% to 2.5% of specified product sales. Certain of these agreements contain provisions for the payment of guaranteed or minimum royalty amounts. In the event that we fail to pay minimum annual royalties, these licenses may automatically be terminated. These royalty obligations terminate in 2009 to 2020. Royalty expenses totaled $156,000 in 2006, $172,000 in 2007 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 capital leases and license obligations are as follows:

Years Ended December 31,	Licenses	Operating Leases
2009	$ 150,000	$ 1,480,000
2010	150,000	1,531,000
2011	150,000	1,442,000
2012	150,000	9,000
2013	150,000	1,000
Thereafter	900,000	—
Total payments	$ 1,650,000	$ 4,463,000

Note 9 — 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 indemnifications. Historically, any amounts payable pursuant to such director and officer indemnifications have not had a material negative effect on our business, financial condition or results of operations.

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

General Contractual Indemnities/Products Liability

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

Short Term Borrowings

We have a line of credit with a bank. The line of credit expires July 2009 and is structured as a sale of accounts receivable. The agreement provides for the sale of up to $5 million of eligible accounts receivable, with advances to us totaling 80% of the receivables sold. Advances under the agreement (*See Note 3)* are collateralized by all our assets. Under the terms of the agreement, we continue to service the sold receivables and are subject to recourse provisions. Under the terms of the agreement, if the bank determines that there is a material adverse change in our business, they can exercise all their rights and remedies under the agreement, including demanding immediate payment of outstanding amounts. There was no amount outstanding under this facility at December 31, 2008

Contractual Contingency

We have 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 we now expect to deliver these custom products in July 2009.

Note 10-Legal Proceedings

Settlement of Litigation

In March 2007, we entered into a Settlement Agreement and Mutual Release of All Claims with a former director and stockholder to settle a lawsuit to collect amounts due under two notes, under which we received a payment of $610,000 in April 2007 in payment of one note, including interest and attorneys' fees, and the rescission of the second related note.

Routine Litigation

We may be involved in routine litigation arising in the ordinary course of our business, and, while the results of the proceedings cannot be predicted with certainty, we believe that the final outcome of such matters will not have a material adverse effect on our financial position, operating results or cash flows.

Note 11- Earnings Per Share

We present "basic" and "diluted" earnings per common share pursuant to the provisions of SFAS No. 128, "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 is 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:

	2006	2007	2008
Outstanding stock options	1,154,941	741,858	1,234,025
Outstanding stock awards	331,000	331,000	20,000
Outstanding warrants	828,838	468,745	352,466
Total	2,314,779	1,541,603	1,606,491

Note 12- Restructuring Expenses and Impairment Charges

In the fourth quarter of 2008 we initiated an effort to reduce our cost structure and incurred $141,000 in severance related to this effort. The following summarizes the restructuring and impairment charges for 2006, 2007 and 2008:

	Years Ended December 31,								
	Restructuring Charges for 2006	Impairment Charges for 2006	Total for 2006	Restructuring Charges for 2007	Impairment Charges for 2007	Total for 2007	Restructuring Charges for 2008	Impairment Charges for 2008	Total for 2008
Severance costs	$ —	$ —	$ —	$ —	$ —	$ —	$ 141,000	$ —	$ 141,000
Goodwill write-off	—	20,107,000	20,107,000	—	—	—	—	—	
Impairment charge for notes receivable from shareholder and board member	—	38,000	38,000	—	—	—	—	—	—
Total		$ 20,145,000	$ 20,145,000	—	—	—	$ 141,000	—	$ 141,000

Note 13— Details of Certain Financial Statement Components and Supplemental Disclosures of Cash Flow Information and Non-Cash Activities

Balance Sheet Data:

	December 31, 2007	December 31, 2008
Accounts receivable:		
Accounts receivable-trade	$ 1,242,000	$ 110,000
U.S. government accounts receivable-billed	1,246,000	320,000
Less: allowance for doubtful accounts	(75,000)	(75,000)
	$ 2,413,000	**$ 355,000**

	December 31, 2007	December 31, 2008
Inventories:		
Raw materials	$ 1,934,000	$ 2,753,000
Work-in-process	679,000	1,038,000
Finished goods	1,817,000	2,348,000
Less: inventory reserves	(1,015,000)	(861,000)
	$ 3,415,000	**$ 5,278,000**

	December 31, 2007	December 31, 2008
Property and Equipment:		
Equipment	$ 15,951,000	$ 15,537,000
Leasehold improvements	6,732,000	6,741,000
Furniture and fixtures	407,000	404,000
	23,090,000	22,682,000
Less: accumulated depreciation and amortization	(19,129,000)	(19,943,000)
	$ 3,961,000	**$ 2,739,000**

Depreciation expense amounted to $2,277,000, $1,877,000 and $1,401,000 respectively, in 2006, 2007 and 2008. In 2007 and 2008, we disposed of older, fully depreciated equipment with an acquisition cost of $1,344,000 and $598,000, respectively. There were no gains or losses from these dispositions.

	December 31, 2007	December 31, 2008
Patents and Licenses:		
Patents pending	$ 705,000	$ 940,000
Licenses pending	—	39,000
Patents issued	983,000	1,059,000
Less accumulated amortization	(345,000)	(409,000)
Net patents issued	638,000	650,000
Licenses	563,000	563,000
Less accumulated amortization	(134,000)	(167,000)
Net licenses Issued	429,000	396,000
Purchased technology	1,706,000	1,706,000
Less accumulated amortization	(1,242,000)	(1,479,000)
Net purchased technology	464,000	227,000
	$ 2,236,000	**$ 2,252,000**

Amortization expense related to these items totaled $326,000, $331,000 and $334,000 respectively in 2006, 2007 and 2008. Amortization expenses related to these items are expected to total $331,000 in 2008 and 2009 and approximately $95,000 in 2010 and 2011.

	December 31, 2007	December 31, 2008
Accrued Expenses and Other Long Term Liabilities:		
Salaries payable	$ 307,000	$ 12,000
Compensated absences	371,000	375,000
Compensation related	369,000	12,000
Warranty reserve	380,000	261,000
Deferred rent	373,000	325,000
Other	123,000	114,000
	1,923,000	**1,099,000**
Less current portion	**(1,405,000)**	**(658,000)**
Long term portion	**$ 518,000**	**$ 441,000**

	2006	2007	2008
Warranty Reserve Activity:			
Beginning balance	$ 491,000	$ 428,000	$ 380,000
Additions	140,000	75,000	41,000
Deductions	(203,000)	(123,000)	(160,000)
Ending balance	**$ 428,000**	**$ 380,000**	**$ 261,000**
Lease Abandonment Costs:			
Beginning balance	$ 225,000	$ 8,000	—
Additions	—	—	—

	2006	2007	2008
Transfers from unfavorable lease costs	—	—	—
Deductions	(217,000)	(8,000)	—
Ending balance	**$ 8,000**	**$ —**	**$ —**
Product Line Exit Costs:			
Beginning balance	$ 402,000	$ 319,000	—
Additions	—	—	—
Deductions	(83,000)	(319,000)	—
Change in estimate relating to previous exit costs accrual	—	—	—
Ending balance	**$ 319,000**	**$ —**	**$ —**
Severance Costs:			
Beginning balance	$ 36,000	$ 32,000	—
Additions	218,000	—	141,000
Deductions	(222,000)	(32,000)	—
Ending balance	**$ 32,000**	**$ —**	**$ 141,000**

Supplemental Cash Flow Information:

	2006	2007	2008
Cash paid for interest	$45,000	$39,000	$32,000

Note 14— Subsequent Event

Operating Lease

In February 2009, we amended our office and production facilities lease. The base rent and the minimum annual escalation clause were reduced and the term of the lease was extended five years to November 2016.

Contract Funding

In March 2009, the second phase of our U.S. Air Force contract was funded for an additional twelve months and provides for progress billing of up to $4.1 million.

Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2008				
Net revenues (1)	$ 3,471,000	$ 2,949,000	$ 3,595,000	$ 1,278,000
Loss from operations (3)	2,398,000	3,411,000	3,294,000	3,850,000
Net loss	2,308,000	3,349,000	3,235,000	3,809,000
Basic and diluted loss per common share	(0.17)	(0.21)	(0.18)	(0.21)
Weighted average number of shares outstanding	13,636,083	16,316,072	17,750,761	17,869,030
2007				
Net revenues (1)	$ 4,183,000	$ 4,685,000	$ 4,121,000	$ 4,914,000
Loss from operations (2)(3)	(2,977,000)	(2,006,000)	(2,040,000)	(2,220,000)
Net loss	(2,937,000)	(1,982,000)	(2,021,000)	(2,187,000)
Basic and diluted loss per common share	$ (0.24)	$ (0.16)	$ (0.16)	$ (0.17)
Weighted average number of shares outstanding	12,483,367	12,483,367	12483,367	12,500,134

(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) These quarters include sales of previously written-off inventory of $0, $138,000, $57,000 and $0, respectively.

(3) Includes increased reserve for inventory obsolescence of $90,000, $70,000, $0 and $0, respectively, in the 2007 quarters and $0, $15,000, $0, and $2,000, respectively, in the 2008 quarters.

SUPERCONDUCTOR TECHNOLOGIES INC.

Schedule II — Valuation and Qualifying Accounts

		Additions			
	Beginning Balance	Charge to Costs & Expenses	Charge to Other Accounts	Charge to Other Deductions	Ending Balance
2008					
Allowance for Uncollectible Accounts	$ 75,000	$ —	$ —	$ —	$ 75,000
Reserve for Inventory Obsolescence	1,015,000	17,000	—	(171,000)	861,000
Reserve for Warranty	380,000	41,000	—	(160,000)	261,000
Deferred Tax Asset Valuation Allowance	115,282,000	2,376,000	—	—	117,658,000
2007					
Allowance for Uncollectible Accounts	75,000	—	—	—	75,000
Impairment for Notes Receivable from Stockholder	1,007,000	(583,000)	—	(424,000)	—
Reserve for Inventory Obsolescence	1,367,000	(195,000)	—	(157,000)	1,015,000
Reserve for Warranty	428,000	75,000	—	(123,000)	380,000
Deferred Tax Asset Valuation Allowance	112,153,000	3,129,000	—	—	115,282,000
2006					
Allowance for Uncollectible Accounts	75,000	—	—	—	75,000
Impairment for Notes Receivable from Stockholder	969,000	38,000	—	—	1,007,000
Reserve for Inventory Obsolescence		3,209,000	360,000	(2,202,000)	1,367,000
Reserve for Warranty	491,000	140,000	—	(203,000)	428,000
Deferred Tax Asset Valuation Allowance	$ 106,299,000	$ 5,854,000	$ —	$ —	$ 112,153,000

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 20th day of March 2009.

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 20, 2009
/s/ William J. Buchanan William J. Buchanan	Controller (Principal Accounting Officer) (Principal Financial Officer)	March 20, 2009
/s/ David W. Vellequette David W. Vellequette	Director	March 20, 2009
/s/ Lynn J. Davis Lynn J. Davis	Director	March 20, 2009
/s/ Dennis J. Horowitz Dennis J. Horowitz	Director	March 20, 2009
/s/ Martin A. Kaplan Martin A. Kaplan	Director	March 20, 2009
/s/ John D. Lockton John D. Lockton	Chairman of the Board	March 20, 2009

EXHIBIT 4.1

COMMON STOCK

NUMBER

ST 3053

COMMON STOCK

SHARES

SUPERCONDUCTOR
TECHNOLOGIES

INCORPORATED UNDER THE LAWS
OF THE STATE OF DELAWARE

SEE REVERSE FOR
CERTAIN DEFINITIONS

~~CUSIP 867931 10 7~~
CUSIP 867931 30 5

THIS CERTIFIES THAT

IS THE OWNER OF

FULLY PAID AND NON-ASSESSABLE SHARES OF THE COMMON STOCK, PAR VALUE OF $0.001 PER SHARE, OF

SUPERCONDUCTOR TECHNOLOGIES INC.

CERTIFICATE OF STOCK

transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney upon surrender of this Certificate properly endorsed. This Certificate is not valid until countersigned and registered by the Transfer Agent and Registrar.

WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated:

COUNTERSIGNED AND REGISTERED:
REGISTRAR AND TRANSFER COMPANY
(CRANFORD, NEW JERSEY) TRANSFER AGENT AND REGISTRAR

BY

AUTHORIZED SIGNATURE

SUPERCONDUCTOR TECHNOLOGIES INC.
CORPORATE
SEAL
1987
DELAWARE

PRESIDENT AND CHIEF EXECUTIVE OFFICER

SECRETARY

UNITED STATES BANKNOTE COMPANY 1990

A statement of the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights as established, from time to time, by the Certificate of Incorporation of the Corporation and by any certificate of determination, the number of shares constituting each class and series, and the designations thereof, may be obtained by the holder hereof upon request and without charge from the Transfer Agent of the Corporation.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM — as tenants in common
TEN ENT — as tenants by the entireties
JT TEN — as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT- Custodian
(Cust) (Minor)
under Uniform Gifts to Minors Act
(State)
UNIF TRF MIN ACT- Custodian (until age)
under Uniform Transfers
(Minor)
to Minors Act
(State)

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED,______________________________ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

Shares of the common stock represented by the within Certificate, and do hereby irrevocably constitute and appoint

Attorney to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.

Dated______________________________

NOTICE: THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR. WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

Exhibit 10.1

SUPERCONDUCTOR TECHNOLOGIES INC.

1992 STOCK OPTION PLAN

(Amended and Restated through July 1997)

1.Purposes of the Plan. The purposes of this Stock Option Plan are:

- to attract and retain the best available personnel for positions of substantial responsibility,
- to provide additional incentive to Employees and Consultants, and
- to promote the success of the Company's business.

Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant.

2.Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committee as shall be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Applicable Laws" means the legal requirements relating to the administration of stock option plans under state corporate and securities laws and the Code.

(c) "Board" means the Board of Directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means a Committee appointed by the Board in accordance with Section 4 of the Plan.

(f) "Common Stock" means the Common Stock of the Company.

(g) "Company" means Superconductor Technologies Inc., a Delaware Corporation.

(h) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services and who is compensated for such services.

(i) "Continuous Status as an Employee or Consultant" means that the employment or consulting relationship is not interrupted or terminated by the

Company, any Parent or Subsidiary. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of: (i) any leave of absence approved by the Board, including sick leave, military leave, or any other personal leave; provided, however, that for purposes of Incentive Stock Options, any such leave may not exceed ninety (90) days, unless reemployment upon the expiration of such leave is guaranteed by contract (including certain Company policies) or statute; or (ii) transfer between locations of the Company or between the Company, its Parent, its Subsidiaries or its successor.

(j) "Director" means a member of the Board.

(k) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code.

(l) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(m) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(n) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

i. If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation ("NASDAQ") System, the Fair Market Value of a Share of Common Stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such system or exchange (or the exchange with the greatest volume of trading in Common Stock) on the last market trading day prior to the day of determination, as reported in the Wall Street Journal or such other source as the Administrator deems reliable;

ii. If the Common Stock is quoted on the NASDAQ Systems (but not on the National Market System thereof) or is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the day of determination, as reported in the Wall Street

Journal or such other source as the Administrator deems reliable;

iii. In the absence of an established market for Common Stock, the Fair Market Value shall be determined in good faith by the Administrator.

(o) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(p) "Nonstatutory Stock Option" means an Option not intented to qualify as an Incentive Stock Option.

(q) "Notice of Grant" means a written notice evidencing certain terms and conditions of an individual Option. The Notice of Grant is part of the Option Agreement.

(r) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(s) "Option" means a stock option granted pursuant to the Plan.

(t) "Option Agreement" means a written agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

(u) "Option Exchange Program" means a program whereby outstanding options are surrendered in exchange for options with a lower exercise price.

(v) "Optioned Stock" means the Common Stock subject to an Option.

(w) "Optionee" means an Employee or Consultant who holds an outstanding Option.

(x) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(y) "Plan" means this Amended and Restated 1988 Stock Option Plan.

(z) "Rule 16b-3" means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(aa) “Share” means a share of the Common Stock, as adjusted in accordance with Section 12 of the Plan.

(bb) “Subsidiary” means a “subsidiary corporation,” whether now or hereafter existing, as defined in Section 424(f) of the Code.

3.Stock Subject to the Plan. Subject to the provisions of Section 12 of the Plan, the maximum aggregate number of Shares which may be optioned and sold under the Plan is 240,293 Shares (after giving effect to the 1-for-2 reverse stock split to be effected in January 1993). The Shares may be authorized, but unissued or reacquired Common Stock. However, should the Company reacquire Shares which were issued pursuant to the exercise of an Option, such Shares shall not become available for future grant under the Plan.

If an Option expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Option Exchange Program, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated).

4.Administration of the Plan.

(a) Procedure.

(i)Multiple Administrative Bodies. The Plan may be administered by different Committees with respect to different groups of Service Providers.

(ii)Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Options granted hereunder as “performance-based compensation” within the meaning of Section 162(m) of the Code, the Plan shall be administered by a Committee of two or more “outside directors” within the meaning of Section 162(m) of the Code.

(iii)Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder shall be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv)Other Administration. Other than as provided above, the Plan shall be administered by (A) the Board or (B) a Committee, which committee shall be constituted to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value of the Common Stock, in accordance with Section 2(n) of the Plan;

(ii) to select the Consultants and Employees to whom Options may be granted hereunder;

(iii) to determine whether and to what extent Options are granted hereunder;

(iv) to determine the number of shares of Common Stock to be covered by each Option granted hereunder;

(v) to approve forms of agreement for use under the Plan;

(vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options may be exercised (which may be based on performance criteria) and any restriction or limitation regarding any Option or the shares of Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

(vii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option shall have declined since the date the Option was granted;

(viii) to construe and interpret the terms of the Plan;

(iv) to prescribe, amend and rescind rules and regulations relating to the Plan;

(x) to modify or amend each Option (subject to Section 14(c) of the Plan);

(xi) to allow Optionees to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by an Optionee to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable;

(xii) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Option previously granted by the Administrator;

(xiii) to institute an Option Exchange Program;

(xiv) to determine the terms and restrictions applicable to Options;

(xv) to make all other determinations deemed necessary or advisable for administering the Plan; and

(xvi) the Administrator shall have the authority, in its discretion, to determine any vesting acceleration or waiver of forfeiture restrictions regarding any Option or the shares of Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine.

(c) Effect of Administrators Decision. The Administrator's decisions, determinations and interpretations shall be final and binding on all Optionees and any other holders of Options.

5.Eligibility. Nonstatutory Stock Options may be granted to Employees and Consultants. Incentive Stock Options may be granted only to Employees. If otherwise eligible, an Employee or Consultant who has been granted an Option may be granted additional Options.

6.Limitations.

(a) Each Option shall be designated in the Notice of Grant as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designations, to the extent that the aggregate Fair Market Value: (i) of Shares subject to an Optionee's incentive stock options granted by the Company, any Parent or Subsidiary, which (ii) become exercisable for the first time during any calendar year (under all plans of the Company or any Parent of Subsidiary) exceeds $100,000, such excess Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), incentive stock options shall be taken into account in the order in which they were granted, and the Faire Market Value of the Shares shall be determined as of the time of grant.

(b) Neither the Plan nor any Option shall confer upon an Optionee any right with respect to continuing the Optionee's employment or consultant relationship with the Company, nor shall they interfere in any way with the Optionee's right or the Company's right to terminate such employment or consulting relationship at any time, with or without cause.

(c) The following limitations shall apply to grants of Options to Employees:

(i) No Employee shall be granted, in any fiscal year of the Company, Options to purchase more than 200,000 Shares.

(ii) The foregoing limitations shall be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 13.

(iii) If an Option is cancelled in the same fiscal year of the Company in which it was granted (other than in connection with a transaction described in Section

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13), the cancelled Option will be counted against the limits set forth in subsection (i) above. For this purpose, if the exercise price of an Option is reduced, the transaction will be treated as a cancellation of the Option and the grant of a new Option.

7.Term of Plan. Subject to Section 19 of the Plan, the Plan shall become effective upon the earlier to occur of its adoption by the Board or its approval by the stockholders of the Company as described in Section 18 of the Plan. It shall continue in effect for a term of ten (10) years unless terminated earlier under Section 14 of the Plan.

8.Term of Option. The term of each Option shall be stated in the Notice of Grant. Such term shall be ten (10) years from the date of grant or such shorter term as may be provided in the Notice of Grant. Moreover, in the case of an Incentive Stock Option granted to an Optionee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent of Subsidiary (a "10% Owner"), the term of the Incentive Stock Option shall be five (5) years from the date of grant or such shorter term as may be provided in the Notice of Grant.

9.Option Exercise Price and Consideration.

(a) Exercise Price. The per share exercise price for the Share to be issued pursuant to exercise of an Option shall be determined by the Administrator, subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time of the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any other Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option, the per Share exercise price shall be determined by the Administrator but in no event shall be less than 50% of the Fair Market Value per Share on the date of grant. In the case of a Nonstatutory Stock Option intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(iii) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a merger or other corporation transaction.

(b) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator shall fix the period within which the Option may be exercised and shall determine any conditions which must be satisfied before the Option may be exercised. In so doing, the Administrator may specify that an Option may not be exercised until the completion of a service period.

(c) Form of Consideration. The Administrator shall determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator shall determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of:

(i) cash;

(ii) check;

(ii) promissory note;

(iv) other Shares which (A) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six months on the date of surrender, and (B) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised;

(v) delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price;

(vi) any combination of the foregoing methods of payment; or

(vii) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws.

10.Exercise of Option.

(a) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement. An Option may be exercised for a fraction of a Share.

An Option shall be deemed exercised when the Company receives: (i) written notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consider of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 12 of the Plan.

Exercising an Option in any manner shall decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Share as to which the Option is exercised.

(b) Termination of Employment or Consulting Relationship. In the event that an Optionee's Continuous Status as an Employee or Consultant terminates (other than upon the Optionee's death or Disability), the Optionee may exercise his or her Option, but only within such period of time as is determined by the Administrator, and only to the extent that the Optionee was entitled to exercise it at the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant). In the case of an Incentive Stock Option, the Administrator shall determine such period of time (in no event to exceed ninety (90) days from the date of termination) when the Option is granted. If, at the date of termination, the Optionee is not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified by the Administrator, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(c) Disability of Optionee. In the even that an Optionee's Continuous Status as an Employee or Consultant terminates as a result of the Optionee's Disability, the Optionee may exercise his or her Option at any time within twelve (12) months from the date of such termination, but only to the extent that the Optionee was entitled to exercise it at the date of such termination (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant). If, at the date of termination, the Optionee is not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. In the event of the death of an Optionee, the Option may be exercised at any time within twelve (12) months following the date of death (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant), by the Optionee's estate or by the person who acquired the right to exercise the Optoin by bequest or inheritance, but only to the extent that the Optionee was entitled to exercise the Option at the date of death. If, at the time of death, the Optionee was not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion fo the Option shall immediately revert to the Plan. If, after death, the Optionee's estate or a person who acquired the right to exercise the Option by bequest or inheritance does not exercise the Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

11. Non-Transferability of Options. Unless determined otherwise by the Administrator, an Option may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee. If the Administrator makes an Option transferable, such Option shall contain such additional terms and conditions as the Administrator deems appropriate.

12. Adjustments Upon Changes in Capitalization, Dissolution, Merger, Asset Sale or Change of Control.

(a) Changes in Capitalization. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by each outstanding Option, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per share of Common Stock covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of price of shares of Common Stock subject to an Option.

(b) Dissolution or Liquidation. In the even of the proposed dissolution or liquidation of the Company, to the extend that an Option has not been previously exercised, it will terminate immediately prior to the consummation of such proposed action. However, in such event, the Board may, alternatively and in the exercise of its sole discretion, declare that any Option shall terminate as of a date fixed by the Board and give each Optionee the right to exercise his or her Option as to all or any part of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable.

(c) Merger or Asset Sale. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Option shall be assumed or an equivalent option or right to receive an equivalent amount of Common Stock shall be substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. Moreover, subject to subsection (d) below, in the further event that the successor corporation does not agree to assume the Option or to substitute an equivalent option or right, the Optionee shall vest in and have the right to exercise the Option as to all of the Optioned Stocked, including Shares as to which it would not otherwise be vested or exercisable. If the Option becomes vested and exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee that the Option shall be fully vested and exercisable for a period of fifteen (15) days from the date of such notice, and the Option will terminate upon the expiration of such period. For the purposes of this paragraph, the Option shall be considered assumed if, following the merger or sale of assets, the option or right confers the right to purchase, for each Share of Optioned Stock subject to the Option immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets was not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation and the participant, provide for the consideration to be received upon the exercise of the Option, for each Share of Optioned Stock subject to the Option, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

(d) Change in Control. In the event of a Change of Control (as defined below), except as otherwise determined by the Board, the Optionee shall fully vest in and have the right to exercise the Option as to all of the Optioned Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option becomes fully vested and exercisable as the result of a Change of Control, the Administrator shall notify the Optionee in writing or electronically prior to the Change of Control that the Option shall be fully vested and exercisable for a period of fifteen (15) days from the date of such notice, and the Option shall terminate upon the expiration of such period. For purposes of this Agreement, a “Change of Control” means the happening of any of the following events:

(i) When any “person,” as such term is used in Sections 13(d) and 14(d) of the Exchange Act (other than the Company, a Subsidiary or a Company employee benefit plan, including any trustee of such plan acting as trustee) is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company’s ten outstanding securities entitled to vote generally in the election of directors: or

(ii) The stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approve an agreement for the sale or disposition by the Company of all or substantially all the Company's assets; or

(iii) A change in the composition of the Board of Directors of the Company, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who are either (A) are directors of the Company as of the date the Plan is approved by the stockholders, or (B) are elected, or nominated for election, to the Board of Directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

13.Date of Grant. The date of grant of an Option shall be, for all purposes, the date on which the Administrator makes the determination granting such Option, or such other later date as is determined by the Administrator. Notice of the determination shall be provided to each Optionee within a reasonable time after the date of such grant.

14.Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Company shall obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Rule 16b-3 or with Section 422 of the Code (or any successor rule or statue or other applicable law, rule or regulation, including the requirements of any exchange or quotation system on which the Common Stock is listed or quoted). Such stockholder approval, if required, shall be obtained in such a manner and to such a degree as is required by the applicable law, rule or regulation.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Optionee, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company.

15.Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the exercise of any Option unless the exercise of such Option and the issuance and delivery of such Shares shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, Applicable Laws, and the requirements of any stock exchange or quotation system upon which the Shares may than be listed or quoted, an shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchase only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

16.Liability of Company.

(a) Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company’s counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

(b) Grants Exceeding Allotted Shares. If the Optioned Stock covered by an Option exceeds, as of the date of the grant, the number of Shares which may be issued under the Plan without additional stockholder approval of an amendment sufficiently increasing the number of Shares subject to the Plan is timely obtained in accordance with Section 14(b) of the Plan.

17.Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

18.Stockholder Approval. Continuance of the Plan shall be subject to approval by the stockholders of the Company within twelve (12) months before or after the date the Plan is adopted. Such stockholder approval shall be obtained in the manner and to the degree required under applicable federal and state law.

Exhibit 10.2

SUPERCONDUCTOR TECHNOLOGIES INC.

AMENDED AND RESTATED 1992 STOCK OPTION PLAN

STOCK OPTION AGREEMENT

Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option Agreement.

II.**AGREEMENT**

A. Grant of Option. The Plan Administrator of the Company hereby grants to the Optionee named in the attached Notice of Grant attached as part of this Agreement (the "Optionee"), an option (the "Option") to purchase a number of Shares, as set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the "Exercise Price"), subject to the terms and condition sof the Plan, which is incorporated herein by reference. Subject to Section 14(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option, this Option is intended to qualify as an Incentive Stock Option under Section 422 of the Code.

B. Exercise of Option.

(1)Right to Exercise. This Option is exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and the applicable provisions of the Plan and this Option Agreement. In the event of Optionee's death, disability or other termination of Optionee's employment or consulting relationship, the exercisability of the Option is governed by the applicable provisions of the Plan and this Option Agreement.

(2)Termination Period. This Option may be exercised for three months after termination of employment or consulting relationship, or such longer period as may be applicable upon death or Disability of Optionee as provided in the Plan, but in no event later than the Term/Expiration Date as provided on attached Notice of Grant.

(3)Method of Exercise. This Option exercisable by delivery of an exercise notice, in the form attached as Exhibit A (the "Exercise Notice"), which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price.

No Shares shall be issued pursuant to the exercise of this Option unless such issuance and exercise complies with all relevant provisions of law and the requirements of any stock exchange or quotation service upon which the Shares are then listed. Assuming such compliance, for income tax purposes the Exercised Shares shall be considered transferred to the Optionee on the date the Option is exercised with respect to such Exercised Shares.

C. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

(1) cash; or

(2) check; or

(3) delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price; or

(4) surrender of other Shares which (i) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six (6) months on the date of surrender, **and** (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares; or

(5) delivery of Optionee's promissory note (the "Note") in the form attached hereto as Exhibit D, in the amount of the aggregate Exercise Price of the Exercised Shares together with the execution and delivery by the Optionee of the Security Agreement attached hereto as Exhibit C. The Note shall bear interest at a rate no less than the "applicable federal rate" prescribed under the Code and its regulations at time of purchase, and shall be secured by a pledge of the Shares purchased by the Note pursuant to the Security Agreement.

D. Non-Transferability of Option. Unless determined otherwise by the Administrator, an Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by the Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

E. Term of Option. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option Agreement.

F. Optionee's Representations. In the event the Shares purchasable pursuant to the exercise of this Option have not been registered under the Securities Act of 1933, as amended, at the time this Option is exercised, Optionee shall, if required by the Company, concurrently with the exercise of all of any portion of this Option, deliver to the Company his Investment Representation Statement in the form attached hereto as Exhibit B, and shall read the applicable rules of the Commissioner of Corporations attached to such Investment Representation Statement.

G. Tax Consequences. Some of the federal tax consequences relating to this Option, as of the date of this Option, are set forth below. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(1) Exercising the Option.

(a) Nonqualified Stock Option "NSO". If the Option does not qualify as an ISO, the Optionee may incur regular federal income tax liability upon exercise. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the fair market value of the Exercised Shares on the date of exercise over their aggregate Exercise Price. If the Optionee is an employee, the Company will be required to withhold from his or her compensation or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.

(b) Incentive Stock Option ("ISO"). If this Option qualifies as an ISO, the Optionee will have no regular income tax liability upon its exercise, although the excess, if any, of the fair market value of the Exercised Shares on the date of exercise over their aggregate Exercise Price will be treated as an adjustment to the alternative minimum tax for federal tax purposes and may subject the Optionee to alternative minimum tax in the year of exercise.

(2) Disposition of Shares.

(a)NSO. If the Optionee holds NSO Shares for at least one year after exercise, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes.

(b)ISO. If the Optionee holds ISO Shares for at least one year after exercise or two years after the grant date, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes. With recent tax law changes, please consult your tax adviser for more information on holding periods and tax rates. If the Optionee disposes of ISO Shares within one year after exercise or two years after the grant date, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the excess, if any, of the **lessor of** (A) the difference between the **fair market value of the Shares acquired on the date of exercise** and the aggregate Exercise Price, or (B) the different between the **sale price** of such Shares and the aggregate Exercise Price.

(3) Notice of Disqualifying Disposition of ISO Shares. If the Optionee sells or otherwise disposes of any of the Shares acquired pursuant to an ISO on or before the later of (i) two years after the grant date, or (ii) one year after the exercise date, the Optionee shall immediately notify the Company in writing of such disposition. The Optionee agrees that he or she may be subject to income tax withholding by the Company on the compensation income recognized from such early disposition of ISO Shares by payment in cash or out of the current earnings paid to the Optionee.

EXHIBIT A

SUPERCONDUCTOR TECHNOLOGIES INC.

AMENDED AND RESTATED 1992 STOCK OPTION PLAN

EXERCISE NOTICE

1. Exercise of Option. Effective as of today,_____________________, 199_________________, the undersigned ("Purchaser") herby elects to purchase_________________ shares (the "Shares") of the Common Stock of Superconductor Technologies Inc. (the "Company") under and pursuant to the Company's Amended and Restated 1992 Stock Option Plan (the "Plan") and the Stock Option Agreement dated__________ (the "Option Agreement"). The purchase price for the Shares shall be $__________, as required by the Option Agreement.

2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price for the Shares.

3. Representations of Purchaser. Purchaser acknowledges that Purchase has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4. Rights as Shareholder. Subject to the terms and conditions of this Agreement, Purchaser shall have all of the rights of a shareholder of the Company with respect to the Shares from and after the date that Purchaser delivers full payment of the Exercise Price until such time as Purchaser disposes of the Shares.

5. Tax Consultation. Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser's purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

6. Entire Agreement; Governing Law. The Plan and Option Agreement are incorporated herein by reference. This Agreement, the Plan and the Option Agreement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and such agreement is governed by California law except for that body of law pertaining to conflict of laws.

Submitted by:	Accepted by:
PURCHASER	SUPERCONDUCTOR TECHNOLOGIES INC
______________________________	By: ______________________________
Signature	Its: ______________________________
Print Name	
Address:	Address:
______________________________	460 Ward Drive, Suite F
______________________________	Santa Barbara, CA 93111-2310

Exhibit 10.14

SIXTH AMENDMENT
TO
LOAN AND SECURITY AGREEMENT

THIS **SIXTH AMENDMENT** to Loan and Security Agreement (this "Amendment") is entered into this 31st day of July, 2008 by and between Silicon Valley Bank ("Bank") and Superconductor Technologies, Inc., a Delaware corporation ("Borrower") whose address is 460 Ward Drive, Suite F, Santa Barbara, CA 93111.

RECITALS

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

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

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

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

AGREEMENT

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

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

2. Amendments to Loan Agreement.

2.1 Section 6.2 (Additional Warranties, Representations and Covenants). A sentence is hereby added to the end of Section 6.2 as follows:

> "Notwithstanding the foregoing, Seller shall only be required to deliver the items referenced in Sections 6.2(f) and 6.2(g) above while Advances are outstanding."

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

> "The term of this Agreement shall be through July 13, 2009 unless terminated in writing by Buyer and Seller."

3. Limitation of Amendments.

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

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

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

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

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

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

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

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

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

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

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

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

[Signature page follows.]

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

BANK	**BORROWER**
Silicon Valley Bank	Superconductor Technologies, Inc.
By: /s/ Ben Fargo	By: /s/ William Buchanan
Name: Ben Fargo	Name: William Buchanan
Title: Relationship Manager	Title: Controller

Schedule 1

ACKNOWLEDGMENT OF AMENDMENT
AND REAFFIRMATION OF GUARANTY

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

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

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

Dated as of July 31, 2008

GUARANTOR

Conductus, Inc.

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

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 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. and subsidiaries of our report dated March 19, 2009 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 19, 2009
(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)

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 20, 2009

/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 20, 2009

/s/ William J. Buchanan
William J. Buchanan
Controller (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 20, 2009

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, 2008 (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 20, 2009

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, 2008 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and

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

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