FORM 10−K

SUPERCONDUCTOR TECHNOLOGIES INC − SCON

Filed: March 08, 2006 (period: December 31, 2005)

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, 2005

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: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, $0.001 par value per share**

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 whether 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 or non−accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b−2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐ Accelerated Filer ☑ Non−Accelerated Filer ☐

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 $67.4 million as of July 2, 2005 (the last business day of our most recently completed second fiscal quarter). The closing price of the common stock on that date was $0.63 as reported by the NASDAQ Stock Market. For purposes of this determination, we excluded the shares of common stock held by each officer and director and by each person who owns 5% or more of the outstanding common stock. 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 the company.

We had 124,834,314 shares of common stock outstanding as of the close of business on February 28, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

Item 5 of Part II and Items 10, 11, 12, 13 and 14 of Part III incorporate information by reference from the definitive proxy statement for the Registrant's Annual Meeting of Stockholders to be held on May 24, 2006.

SUPERCONDUCTOR TECHNOLOGIES INC.

FORM 10−K ANNUAL REPORT
Year Ended December 31, 2005

SPECIAL NOTE REGARDING FORWARD−LOOKING STATEMENTS

This report contains forward−looking statements that involve risks and uncertainties. We have made these statements in reliance on the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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 our funding requirements. Other statements contained in our filings 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.

Forward−looking statements are not guarantees of future performance and are subject to various risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed in forward−looking statements. They can be affected by many factors, including, those discussed under the captions “*Business—Risk Factors*”and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations.*” Forward−looking statements are based on information presently available to senior management, and we do not assume any duty to update our forward−looking statements.

WHERE YOU CAN FIND MORE INFORMATION

As a public company, we are required to file annually, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any of our materials on file with the SEC at the SEC’s Public Reference Room at 450 Fifth Street, N.W., Judiciary Plaza, Washington, DC 20549, as well as at the SEC’s regional office at 5757 Wilshire Boulevard, Suite 500, Los Angeles, California 90036. Our filings are available to the public over the Internet at the SEC’s website at http://www.sec.gov. Please call the SEC at 1−800−SEC−0330 for further information on the Public Reference Room. We also provide copies of our Forms 8−K, 10−K, 10−Q, Proxy and Annual Report at no charge to investors upon request and make electronic copies of our most recently filed reports available through our website at www.suptech.com as soon as reasonably practicable after filing such material with the SEC.

PART I

ITEM 1. BUSINESS

Our Company

We develop, manufacture and market high performance infrastructure products for wireless voice and data applications. Wireless carriers face many challenges in today's competitive marketplace. Minutes of use are skyrocketing, and wireless users now expect the same quality of service from their mobile devices as from their landline phones. We help wireless carriers meet these challenges by "doing more with less."

Our 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. SuperLink incorporates patented high−temperature superconductor (HTS) technology to create a receiver front−end that enhances network performance. Today, we are leveraging our expertise and proprietary technology in radio frequency (RF) engineering to expand our product line beyond HTS technology. We believe our RF engineering expertise provides us with a significant competitive advantage in the development of high performance, cost−effective solutions for the front end of wireless telecommunications networks.

We currently sell most of our commercial products directly to wireless network operators in the United States. Our customers to date include ALLTEL, Cingular, Sprint Nextel, T−Mobile, U.S. Cellular and Verizon Wireless. We have a concentrated customer base. Verizon Wireless, ALLTEL and T−Mobile each accounted for more than 10% of our commercial revenues in 2005, and Verizon Wireless and ALLTEL each accounted for more than 10% of our commercial revenues in 2004. We plan to expand our customer base by selling directly to other wireless network operators and manufacturers of base station equipment, but we cannot assure that this effort will be successful.

Industry Background. The ability to provide high quality service to subscribers is becoming increasingly difficult for wireless operators as the number of users grows, minutes of use increase and the market for wireless data services expands. Wireless service providers in both rural and urban areas are encountering radio frequency interference due to greater subscriber density and a larger number of users on adjacent channels. This reduced signal quality and higher percentage of dropped calls can lead to lower system utilization, decreased revenue and, ultimately, higher rates of customer churn. Service providers are also facing network capacity constraints.

As a result, wireless carriers are seeking to cost−effectively reduce interference, increase capacity, expand coverage to improve the quality of their systems, and, where possible, utilize their spectrum in the most efficient manner possible.

Our Solution. We leverage our expertise in RF technology to cost effectively deliver interference protection and increased sensitivity to our wireless carrier customers. Our solutions provide the following quality−of−service improvements:

- reduction in base station noise figure;
- reduction of dropped calls and network access failures;
- elimination of interference from other sources such as specialized mobile radio handsets and other base stations; and
- increased in−building penetration.

Our Products. Our solutions consist of the following three product lines:

- *SuperLink* combines HTS filters with a proprietary cryogenic cooler and a cooled low−noise amplifier to create a highly compact and reliable receiver front−end that can simultaneously deliver both high selectivity (interference rejection) and high sensitivity (detection of low level signals).

- *AmpLink* is a ground−mounted unit which includes a high−performance amplifier and up to six dual duplexers.
- *SuperPlex* is a line of multiplexers that provides extremely low insertion loss and excellent cross−band isolation.

Our Strategy. Our objective is to provide a full range of performance improvement solutions to wireless carriers by offering our field−proven solutions, innovative duplexer designs for antenna sharing and network overlays, ground−based sensitivity improvement solutions and high−performance multiplexers. The primary elements of our strategy include:

- expanding domestic and international sales channels to broaden our customer base,
- enhancing our productivity and lowering our costs,
- enhancing and extending our current product offerings,
- maintaining our focus on technical excellence and innovation, and
- pursuing strategic partnerships, alliances and acquisitions.

Government Contracts. We also generate significant revenues from government contracts. We primarily pursue government research and development contracts which compliment our commercial product development, but we also pursue government product opportunities. We undertake government contract work which has the potential to add to or improve our commercial product line. These contracts often yield valuable intellectual property relevant to our commercial business. We typically own the intellectual property developed under these contracts, and the Federal Government receives a royalty−free, non−exclusive and nontransferable license to use the intellectual property for the United States.

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.

Our Wireless Products

Commercial wireless providers can use our solutions to keep pace with the growing demand for wireless communications. Wireless providers may deploy our products in connection with the installation of additional base stations in a network, as well as with the installation of an entirely new network. Wireless carriers can also improve the performance of existing base stations and networks by retrofitting their equipment with our link enhancement products.

Our performance improvement solutions fit into three product families: SuperLink, AmpLink and SuperPlex.

- *SuperLink.* In order to receive uplink signals from wireless handsets, base stations require a filter system to eliminate out−of−band interference, and amplification to enhance the base station’s sensitivity. To address this need, we offer the SuperLink product line for the receiver front−end of base stations. These products combine specialized filters using HTS technology with a proprietary cryogenic cooler and cryogenically cooled low−noise amplifiers. The result is a highly compact and reliable cryogenic receiver front−end that can simultaneously deliver both high selectivity (interference rejection) and high sensitivity (detection of low level signals). SuperLink products offer significant advantages over conventional filter and amplifier systems.
- *AmpLink*. AmpLink is designed specifically to address the sensitivity requirements of wireless base stations. AmpLink is a ground−mounted unit which includes a high−performance amplifier and up to six dual duplexers. The enhanced uplink provided by AmpLink improves network coverage immediately and avoids the installation and maintenance costs associated with tower mounted alternatives.
- *SuperPlex.* SuperPlex is our line of multiplexers that provides extremely low insertion loss and excellent cross−band isolation. Products in our SuperPlex family of high−performance multiplexers are designed to facilitate base station antenna sharing and reduce infrastructure costs. SuperPlex can be used in conjunction with

AmpLink and SuperLink products to optimize performance in networks where 1900 MHz EV−DO capabilities are added to existing 850 MHz networks. Relative to competing technologies, this portfolio of STI solutions offers increased transmit power delivered to the base station antenna, higher sensitivity to subscriber handset signals, interference rejection and fast and cost−effective network overlays.

Marketing and Sales

We sell solutions to wireless communication service providers in the United States and have plans to pursue selected international opportunities.

We have a concentrated customer base. Verizon Wireless, ALLTEL and T−Mobile each accounted for more than 10% of our commercial revenues in 2005; Verizon Wireless and ALLTEL each accounted for more than 10% of our commercial revenues in 2004; and Verizon Wireless and ALLTEL each accounted for more than 10% of our net commercial revenues in 2003.

We sell using a direct sales force in the U.S. to focus on the Tier I wireless carriers. We have recently directed efforts to market our products to select customers internationally and have not yet had significant international sales.

We demonstrate our products at trade shows, and participate in industry conferences. Advertising, direct mailings, and contribution of technical and application reports to recognized trade journals, are all employed to communicate 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− and post−sales support.

Our marketing efforts are focused on establishing and developing long−term relationships with potential customers. The initial sales cycle for our solutions can be lengthy, typically ranging from six months to twelve months. Our customers typically conduct significant technical evaluations of products before making purchase commitments. We typically negotiate general purchase agreements with our customers. These agreements specify the terms and conditions for the business relationship with our customers. Standard purchase orders are subject to cancellation, postponement or other types of delays.

We purchase inventory components and manufacture inventory based on sales forecasts.

Backlog

Our commercial backlog consists of accepted product purchase orders with scheduled delivery dates during the next twelve months. We had commercial backlog of $250,000 at December 31, 2005, as compared to $730,000 at December 31, 2004.

How We Use Government Contracts to Fund Technology Development

Our strategy is to continue to pursue government research and development contract awards which complement our commercial product and technology development and allow for commercialization of the underlying technology. Since our inception in 1987, a substantial part of our revenues have been from research and development contracts, sales directly to the U.S. government or resellers to the U.S. government. Nearly all of these revenues were paid under contracts with the U.S. Department of Defense. We market to various government agencies to identify opportunities and actively solicit partners for product development proposals. Since 1988, we have successfully obtained a number of classified and non−classified government contracts for superconductor research, including one of the largest non−classified HTS awards from DARPA through the Office of Naval Research. In addition to actively soliciting government contracts, we have participated in the Small Business Innovative Research, or SBIR, program. We have been awarded 33 Phase I SBIR contracts, each of which typically generates up to $100,000 in revenues. We have been successful in converting eight of these Phase I contracts into Phase II programs, each of which typically generates up to $750,000 in revenues, and we converted one of these contracts into a Phase III program valued at $2.2 million. Since our formation, government contracts have provided us approximately $90 million of revenue, and remain a significant source of revenue today, supporting our research and development programs. We also develop and sell RF transceiver front−end products that utilize our unique HTS filter and cryogenics technologies to the US Government, and we are interested in growing this government products business.

Our Manufacturing Capabilities

Our manufacturing process involves the assembly of numerous individual components and precision tuning by production technicians. 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; electronic circuit components, such as integrated circuits, semiconductors, resistors and capacitors. Our AmpLink and SuperPlex products are primarily manufactured by foreign contract manufacturers. We currently manufacture our SuperLink systems at our facilities in Santa Barbara, California.

In 1998, we opened a state−of−the−art manufacturing facility in Santa Barbara. We renovated these manufacturing areas in early 2003, the first in a series of moves that have enabled us to produce larger quantities of our SuperLink products. In 2003 and 2004, we expanded our controlled clean rooms, continued to develop and introduce new, state−of−the−art production and test equipment and processes, and implemented a continuous flow manufacturing strategy. In addition, performance testing and systems screening methods, along with optimized quality improvement techniques, have been instrumental in enabling our SuperLink units to reach Mean Time Between Failure (MTBF) levels of more than 500,000 hours.

We have the physical infrastructure to manufacture up to 2,800 SuperLink units per year. This capacity is unchanged from the prior year. We significantly reduced the number of manufacturing personnel in 2004 in response to a decline in unit volume. We would have to significantly increase our manufacturing staff to produce units near capacity with our current infrastructure. We are holding physical capacity and staffing at their current levels to conserve cash resources. We could expand manufacturing capacity to approximately 5,000 units per year in our current facility with minor additional equipment purchases.

Our internal capabilities include a proprietary manufacturing process for thin−film materials that is scaleable for high volume production. In addition, we have established a production operation that we use to produce thin films on wafers for wireless electronics applications. Our radio frequency circuitry is designed, modeled and tested by internal engineering resources. We have in−house capabilities to pattern the superconducting material and all other aspects of radio frequency component production, including packaging the filters. We also have in−house capabilities to manufacture our cryogenic coolers. We have refined our supplier base to improve the quality of received parts, while lowering the cost and decreasing lead−times.

In early 2006, STI launched its high volume AmpLink manufacturing and distribution center within the existing Santa Barbara site. The 3,200 square foot production facility has a capacity of processing 10,000 AmpLink units acquired from a third party manufacturer annually which can be increased to 20,000 units with no additional capital expenditure. The production line is supported by a newly refurbished 8,000 square foot warehouse and distribution center. The manufacturing and distributions centers are tightly linked to provide the most efficient and rapid order fulfillment capabilities for up to 200 AmpLink units per week.

A number of the parts used in our products are available from only one or a limited number of outside suppliers due to unique component designs as well as certain quality and performance requirements.

Intellectual Property

We rely upon trade secrets and patents to protect our intellectual property. We execute confidentiality and non−disclosure agreements with our employees and suppliers and limit access to, and distribution of, our proprietary information. We have an on−going program to identify and file applications for both U.S. and international patents for various aspects of our technology. We regard our product designs, design tools, fabrication equipment and manufacturing processes as proprietary and seek to protect our rights in them through a combination of patent, trademark, trade secret and copyright law and internal procedures and non−disclosure agreements. We also seek licenses from third parties for HTS materials and processes used by us, which have been patented by other parties. We believe that our success will depend, in part, on the protection of our proprietary information, patents and the licensing of key technologies from third parties.

We have historically utilized thallium barium calcium copper oxide (“TBCCO”) as the primary HTS material in our SuperLink product line. In the fourth quarter of 2004, we shifted all of our production from TBCCO to yttrium barium copper oxide (“YBCO”) to lower the product manufacturing cost of the SuperLink. We have a non−exclusive license in the U.S. and selected foreign countries to the primary patents on YBCO from Lucent and TBCCO from the University of Arkansas.

We have an extensive patent portfolio for the technology relevant to our SuperLink products, government products and related business. As of December 31, 2005, we held 46 U.S. patents in the following categories which are currently relevant to this business:

- 6 patents for technologies directed toward producing thin−film materials and structures expiring in 2010 to 2024;
- 21 patents for cryogenic and non−microwave circuit designs expiring in 2010 to 2023;
- 14 patents covering cryogenics, packaging and systems expiring in 2013 to 2024; and
- 5 patents covering other superconducting technologies expiring in 2013 to 2015.

We also had 24 U.S. patent applications pending as of December 31, 2005 which are currently relevant to this business. As of that date, we held 13 foreign issued patents and 10 foreign patents pending.

We have trade secrets and unpatented technology and proprietary knowledge about the sale, promotion, operation, development and manufacturing of our products. We have confidentiality agreements with our employees and consultants to protect these rights.

We own federally registered trademarks to Superconductor Technologies, Conductus and Improving the Quality of Wireless and have several other trademark registrations pending. We own other registered and unregistered trademarks, and have certain trademark rights in foreign jurisdictions.

From time to time we grant licenses for our technology to other companies for fields of use that are not relevant to our business. 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, among others.

We use superconducting technology in our SuperLink solution to improve both the selectivity (rejection of adjacent band interference) and the sensitivity (ability to “hear” signals better) of a base station receiver. Superconductors are materials that have the ability to conduct electrical energy with little or no resistance when cooled to “critical” temperatures. In contrast, electric currents that flow through normal conductors encounter resistance that requires power to overcome and generates heat. Substantial improvements in the performance characteristics of electrical systems can be made with superconductors, including reduced power loss, lower heat generation and decreased electrical noise. As these properties have been applied to radio and microwave frequency applications, new products, such as wireless filters, have been developed that are extremely small, highly sensitive and highly frequency selective.

The discovery of superconductors was made in 1911. However, a fundamental understanding of the phenomenon of superconductivity eluded physicists until J. Robert Schrieffer (a former director and Chairman of our Technical Advisory Board), John Bardeen (co−inventor of the transistor) and Leon Cooper proposed a theory explaining superconductivity, for which they were awarded the Nobel Prize in Physics in 1972. Until 1986, all superconductor utilization was done at extremely low temperatures, below 23K (−250°C). Superconductors were not widely used in commercial applications because of the high cost and complexities associated with reaching and maintaining such low temperatures. In 1986, high temperature superconductors with critical temperatures greater than 30K (−243°C) were discovered. In early 1987, YBCO was discovered, which has a critical temperature of 93K (−180°C). Shortly thereafter, TBCCO was discovered, which has a critical temperature of 125K (−148°C). These discoveries were important because these high temperature superconductors allowed for operating temperatures higher than 77K (−196°C), or the point at which nitrogen liquefies at atmospheric pressure. These high critical temperatures allow superconductors to be cooled using less expensive and more efficient refrigeration processes. Our Company was formed following this discovery for the initial purpose of developing and commercializing high temperature superconductors.

As part of our strategy to maintain our technological leadership, we have focused our research and development activities on HTS materials, RF circuitry, cryogenic design and product application. We have internally developed our key technologies from a standard set of technology platforms. We utilize a proprietary manufacturing process for HTS thin−film production, the base material for our filtering products. An in−house design team develops the filters, which are packaged into a vacuum−sealed container for thermal insulation. The filter package is incorporated with our cryogenic cooler and then integrated with the necessary control electronics into a complete system for simple adaptation into new or existing wireless communications base stations. We believe that our filter systems provide our targeted markets with the smallest and most cost−effective products and that we are the only superconducting company that develops and manufactures all of these key components. We also utilize technologies under licenses of patents from others for our products.

We use HTS materials as the base material to produce "thin film" microelectronics, primarily RF filters, in our SuperLink product line. A number of HTS materials have been discovered with superconducting properties, but only a few have characteristics capable of commercialization. We have historically utilized TBCCO as the primary HTS material in our SuperLink product line. In the fourth quarter of 2004, we shifted all of our production from TBCCO to YBCO to lower the product manufacturing cost of the SuperLink. We manufacture YBCO using proprietary processes, including proprietary manufacturing techniques. We believe that the process technology we have developed produces state of the art HTS thin−films of the highest quality with limited use of YBCO.

We have devoted a significant portion of our engineering resources to design and model the complex RF circuitry that is basic to our products. Our RF engineering team is led by recognized international leaders in RF filter design. The expertise of this highly qualified team has allowed us to design and fabricate very precise individual components, such as RF signal filters. We have implemented computer simulation systems to design our products and this RF circuitry design has allowed us to produce extremely small, high−performance circuits. Some of our design and engineering innovations have been patented; others are the subjects of pending patent applications. We believe that our RF engineering expertise provides us with a unique competitive advantage.

The availability of a low−cost, highly reliable, compact cooling technology is critical to the successful commercialization of our superconducting products. Prior to the Company's efforts, no such cryogenic cooler had been commercially available. In response to this lack of availability, we developed a low−cost, highly reliable low−power cooler designed to cool to 77K (−196°C) with sufficient cooling capacity for our superconducting applications. Our SuperLink systems have logged in excess of 118 million hours of cumulative operation. The cryogenic coolers in our current models have demonstrated a "mean time between failure" (the industry standard measurement) of greater than 1 million hours. The design was based in part on patents licensed by us from Sunpower, Inc. We believe our internally developed cooler, which is both compact enough and reliable enough to meet the most demanding wireless industry standards, provides us with a significant and unique competitive advantage.

Cooling to cryogenic temperatures requires proper thermal isolation and packaging. Any superconducting or other cryogenically cooled device must be maintained at its optimal operating temperature, and its interaction with higher temperature components must be controlled. We have developed a variety of proprietary and patented cryogenic packaging innovations to satisfy this requirement.

Competition

The wireless communication market is intensely competitive. We face competition in various aspects of our technology and product development and in each of our target markets. Our products compete on the basis of performance, functionality, reliability, pricing, quality, designs that can be efficiently manufactured in large volumes, time−to−market delivery capabilities and compliance with industry standards. Our current and potential competitors include conventional RF filter manufacturers 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. The primary competitors use tower mount and ground mount amplifiers, conventional filters, repeaters or “smart antenna” technologies. Tower mount and ground mount amplifiers pass an RF signal received by an antenna through a broad filter, followed by a low noise amplifier. These units are produced by a number of companies, which include most of the base station original equipment manufacturers (OEMs) such as Ericsson and Nokia. Filter manufacturers, including Andrew, Powerwave, Filtronic and Radio Frequency Systems, also produce these units. Smart antennas allow base stations to focus energy more directly on individual wireless devices in order to improve capacity. Some competitors have significantly greater financial, technical, manufacturing, sales, marketing and other resources. Some competitors have achieved greater name recognition for their products and technologies.

In addition, we currently supply components and license technology to several companies that may eventually decide to manufacture or design their own HTS components, rather than purchasing or licensing our technology. 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.

Employees

We employed a total of 120 people as of December 31, 2005: 53 in manufacturing, 33 in research and development, 20 in sales and marketing and 14 in administration. Ten of our employees have Ph.D.s, and eighteen others hold advanced degrees in physics, materials science, electrical engineering and other fields. Our employees are not represented by a labor union, and we believe that our employee relations are good.

We are highly dependent upon the efforts of our senior management. Due to the specialized technical nature of our business, we are also highly dependent upon our ability to attract and retain qualified technical personnel, primarily in the areas of wireless communications. The loss of the services of one or more members of our senior management or technical teams could hinder our ability to achieve our product development and commercialization objectives. There is intense competition for qualified personnel in our market areas and we can give no assurance that we will be able to continue to attract and retain qualified personnel necessary for the development of our business.

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 occurred, 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.

ITEM 1A. RISK FACTORS

This Annual Report on Form 10−K and our other filings with the Securities and Exchange Commission contain forward−looking statements that involve risks and uncertainties. We have made these statements in reliance on the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Our forward−looking statements relate to future events or our future performance and include, but are not limited to, statements concerning our future profitability, revenues, market growth, demand and pricing trends, competition in our industry, market acceptance, timing of any demand for next generation products, capital requirements and new product introductions. Other statements contained in our filings 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 similar words.

Forward−looking statements are not guarantees of future performance and are subject to various risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed in forward−looking statements. They can be affected by many factors, including, those listed in this Annual Report on Form 10−K under the caption “*Management's Discussion and Analysis of Financial Condition and Results of Operations – Forward Looking Statements.*” This section describes some of the additional uncertainties and factors that may affect our forward−looking statements. Forward−looking statements are based on the beliefs, estimates made by, and information presently available to senior management. We do not assume any duty to update our forward−looking statements.

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

Risks Related to Our Business

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

In each of our last five years, we have experienced significant net losses and negative cash flows from operations. 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.

During 2005, we incurred a net loss of $14.2 million and negative cash flows from operations of $9.4 million. In addition, our independent registered public accounting firm has included in their report for 2005 an explanatory paragraph expressing doubt about our ability to continue as a going concern due to past losses and negative cash flows. They included a similar explanatory paragraph in their audit report for 2002, 2003 and 2004.

Our principal sources of liquidity consist of existing cash balances and funds expected to be generated from future operations. Based on our current forecasts, we expect our existing cash resources will be sufficient to fund our planned operations for at least the next twelve months. We believe the key factors to our liquidity will be our ability to successfully execute on our plans to increase sales levels. 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. If actual cash flows deviate significantly from forecasted amounts, we may require additional financing in the next twelve months.

We cannot ensure you that additional financing (public or private) 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, and we could deplete our reserve of authorized but unissued common stock. New investors may demand rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise needed funds, we would also 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 95% of our commercial product revenues from ALLTEL, Verizon Wireless and T−Mobile in 2005 and 87% of our commercial product revenues from ALLTEL and Verizon Wireless in 2004. 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.

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;
- high fixed expenses that may disproportionately impact operating expenses, especially during a quarter with a sales shortfall; and
- discounts given to certain customers for large volume purchases.

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. We have also regularly generated a large percentage of our revenues in the last month of a 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, 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.

Our expense levels are based in large part on expectations of future revenue. These items of expense are relatively fixed in the short−term. We may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Consequently, operating results in any given period are likely to be disproportionately harmed if revenue in that period falls below expectations.

Due to these and other factors, our past results are not 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, and sales are subject to delays beyond our control. 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 affect 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 their 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 sole foreign manufacturer. Our reliance on sole or limited source suppliers involves certain risks and uncertainties, most 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 cancellation of orders, which could harm our business.

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

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

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

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

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

Changes in the mix of our sales channels could cause fluctuations in our gross profit and future operating results.

We currently sell most of our products directly to wireless network operators in the United States. We plan, however, to expand our business by selling directly to manufacturers of base station equipment on an OEM basis. If and when changes in the mix of our sales channels occur, our gross profit and operating margins may be adversely affected.

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 utilize.

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 were engaged in a patent dispute with ISCO International, Inc. from July 2001 to May 2005 relating to U.S. Patent No. 6,263,215 entitled "Cryoelectronically Cooled Receiver Front End for Mobile Radio Systems." ISCO alleged that some of our HTS products infringed the ISCO patent. We prevailed at trial. The jury returned a unanimous verdict that our products did not infringe the ISCO patent and that the ISCO patent is invalid and unenforceable. The jury's verdict was upheld on appeal, and we do not expect any further legal action related to this matter.

We currently rely on specific technologies and may not successfully adjust 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 in technology. 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 concentration of our resources on 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 antennas or use advanced antenna technology in lieu of purchasing our products. We may not succeed in competing with these alternatives.

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

We derive a 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 either STI is 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 pursuant to 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 which 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 secrets 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 secrets 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 efficient manufacturing capacity or may incur unnecessary costs and produce excess inventory.

We forecast our inventory needs based on anticipated product orders to determine manufacturing requirements. If we overestimate our requirements, 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 each 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 sometimes 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. Entering into 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 expected 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. Anticipated growth in future operations will continue to place a significant strain on management systems and resources. We expect that we will need to continue to improve our financial and managerial controls, reporting systems and procedures, and will need to continue to expand, train and manage our work force worldwide. Furthermore, we expect that we will 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 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 SEC filings 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.

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 may not be able to maintain our NASDAQ stock listing, and the loss of our listing would have a material adverse affect on the liquidity and price of our stock.

Our common stock currently is listed on the NASDAQ Capital Market. However, we cannot assure you that our stock will continue to be listed on the NASDAQ Stock Market. The NASDAQ Stock Market has rules for maintaining a listing, including a minimum bid price for common stock of $1.00 per share. Our common stock was originally listed on the NASDAQ National Market, but we transferred our listing to the NASDAQ Capital Market to secure additional time for regaining compliance with the minimum stock price requirement.

NASDAQ originally notified us on April 4, 2005 of a potential delisting from the NASDAQ National Market due to a sustained price decline below the $1.00 minimum requirement. We were given six months to regain compliance. In order to regain compliance, the bid price of the common stock must close at $1.00 per share or more for a minimum of 10 consecutive trading days before the end of the grace period. When our stock price did not recover by the end of the first grace period, we transferred our listing to the Capital Market and were given an additional six months to regain compliance (until March 30, 2006).

Our common stock continues to trade below the minimum price requirement. Therefore, we have decided to implement a 1−for−10 reverse stock split in an effort to protect our NASDAQ listing. We have already obtained stockholder approval and will implement the reverse split on March 13, 2006. We received discretionary authority for the reverse stock split from our stockholders at last year's annual meeting.

We cannot predict, however, whether the reverse stock split will achieve the desired result of maintaining our listing on the NASDAQ Stock Market. The price per share of our common stock is also a function of our financial performance and other factors, some of which may be unrelated to the number of shares outstanding. Accordingly, there can be no assurance that the closing bid price of the our common stock after the reverse stock split will increase in an amount proportionate to the decrease in the number of issued and outstanding shares, or will increase at all, or that any increase can be sustained for a prolonged period of time or a sufficient amount of time to regain compliance with the NASDAQ minimum price requirement.

Even if we regain compliance, we may not meet all of the continued listing requirements in the future, particularly if the price of our common stock again falls below $1.00 per share for thirty consecutive trading days. If our common stock is not listed with NASDAQ, it may be difficult or impossible to sell it.

We have decided to implement a reverse stock split, and the reverse stock split could reduce our total market capitalization.

We have decided to implement a 1−for−10 reverse stock split in an effort to protect our NASDAQ listing. We will implement the reverse split on March 13, 2006. At our 2005 annual meeting, we sought and received from our stockholders discretionary authority to implement a reverse stock split in the range of 1−for−2 to 1−for−10 within one year of the meeting date without further stockholder approval. We sought this authority in response to the fact that our stock price had been trading below $1.00 per share – the minimum price for maintaining our NASDAQ listing. We can regain compliance if the bid price of the common stock closes at $1.00 per share or more for a minimum of 10 consecutive trading days before the end of the current grace period (March 30, 2006). The reverse stock split is one method for achieving this goal. We value our listing on the NASDAQ National Market and have decided to implement the reverse split to maintain our listing.

There can be no assurance that the per share price of the common stock after the reverse stock split will actually increase in an amount proportionate to the decrease in the number of outstanding shares. In other words, our total market capitalization could decrease as a result of the reverse stock split.

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, 2005, we had outstanding warrants and options exercisable for an aggregate of 20,312,134 shares of common stock at a weighted average exercise price of $3.24 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 STI 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. The rights of the holders of common stock may be subordinate to, and adversely affected by, the rights of holders of preferred sock 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 Superconductor 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

The Securities Exchange Commission regularly reviews and comments on the periodic and current reports filed by reporting companies under the Securities Exchange Act of 1934. We have no unresolved comments from the Securities Exchange Commission concerning our periodic or current reports.

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. We have a long−term lease for 60,000 square feet that expires in 2011, and we rent the remaining 11,000 square feet on a year−to−year basis. We believe that our Santa Barbara facilities are adequate to meet current and reasonably anticipated needs for approximately the next two years.

ITEM 3. LEGAL PROCEEDINGS

Shalvoy Litigation

Mr. Shalvoy, a director and stockholder, owed us a total of $820,244 of principal, plus accrued interest of more than $214,000, under two, full recourse promissory notes as of December 31, 2005. The notes are secured by 151,762 shares of our common stock with a market value of approximately $65,000 as of December 31, 2005.

We acquired the notes in connection with the acquisition of Conductus, Inc. in December 2002. Conductus made these two loans to Mr. Shalvoy, its then President and Chief Executive Officer, prior to the acquisition. Mr. Shalvoy issued the notes to Conductus as payment for the purchase price on the exercise of stock options in December 2000. The first note was due on December 28, 2005 ($460,244 principal amount), and the second note is due on August 21, 2006 ($360,000 principal amount).

Mr. Shalvoy notified us in December 2005 of his intention not to repay either of the loans. Mr. Shalvoy alleges, among other things, that the Conductus board committed to forgive the loans should the stock purchase turn out to have negative financial consequences to him. Mr. Shalvoy had not previously disclosed this alleged agreement to us, and we have not found (and are not aware) of any documentation to support his allegation. We do not believe that any agreement to forgive the notes ever existed, and we believe that the notes are valid and binding debt obligations of Mr. Shalvoy. Consequently, we filed a lawsuit against Mr. Shalvoy on December 21, 2005 in the California Superior Court (Case No. 1186812) to collect payment in full of all principal and interest due under both notes.

We carried the principal and accrued interest for both notes as assets on our balance sheet at October 1, 2005. As of that date, the balance sheet included principal of $820,000 under the heading “Notes Receivable from Stockholder” and accrued interest of $203,000 in the line item “Prepaid Expenses and Other Current Assets.” Notwithstanding our firm belief that the notes are valid and binding debt obligations, we concluded that generally accepted accounting principles require the recording of a material, non−cash reserve against these assets in the fourth quarter of 2005 due to Mr. Shalvoy’s refusal to pay the notes voluntarily. The reserve of $969,000 represents the total value of the notes (principal plus accrued interest) less the market value of the collateral securing the notes. We will reserve any default interest recognized in accordance with the terms of the notes.

Routine Litigation

We are also 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 security holders during the last quarter of the year.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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
2004		
Quarter ended April 2, 2004	$7.45	$2.00
Quarter ended July 3, 2004	$2.50	$0.78
Quarter ended October 2, 2004	$1.40	$0.80
Quarter ended December 31, 2004	$1.67	$0.79
2005		
Quarter ended April 2, 2005	$1.43	$0.65
Quarter ended July 2, 2005	$0.87	$0.37
Quarter ended October 1, 2005	$1.11	$0.58
Quarter ended December 31, 2005	$0.74	$0.41

Holders of Record

We had 359 holders of record of our common stock on February 14, 2006. This number does not include stockholders for whom shares were held in a "nominee" or "street" name. We estimate that there are more than 34,000 round lot 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

Sales of Unregistered Securities

We did not conduct any offerings of equity securities during the fourth quarter of 2005 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 2005.

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 the Company's 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". We acquired Conductus, Inc. on December 18, 2002. The results of Conductus, Inc. are included in the consolidated financial statement starting for 13 days in 2002 following its acquisition and all periods thereafter.

	Year Ended December 31,				
	2001	2002	2003	2004	2005
	(In thousands, except per share data)				
Statement of Operations Data:					
Net revenues:					
Net commercial product revenues	$ 7,601	$ 17,601	$ 38,577	$ 16,787	$ 21,080
Government contract revenues	4,782	4,785	10,759	6,189	3,107
Sub license royalties	10	10	58	28	22
Total net revenues	12,393	22,396	49,394	23,004	24,209
Costs and expenses:					
Cost of commercial product revenues	10,626	19,286	28,249	23,421	18,989
Contract research and development	3,359	2,531	6,899	4,465	2,806
Other research and development	4,606	4,489	4,697	5,036	4,214
Selling, general and administrative	11,907	14,976	20,567	16,051	11,442
Restructuring expenses and impairment charges	—	—	—	4,128	1,197
Write off of in−process research and development	—	700	—	—	—
Total costs and expenses	30,498	41,982	60,412	53,101	38,648
Loss from operations	(18,105)	(19,586)	(11,018)	(30,097)	(14,439)
Other income (expense), net	904	73	(327)	(1,120)	226
Net loss	(17,201)	(19,513)	(11,345)	(31,217)	(14,213)
Less deemed and cumulative preferred stock Dividends	(2,603)	(1,756)	—	—	—
Net loss available to common stockholders	($ 19,804)	($ 21,269)	($ 11,345)	($ 31,217)	($ 14,213)
Basic and diluted net loss per share:					
Net loss per common share	($ 1.10)	($ 0.89)	($ 0.18)	($ 0.37)	($ 0.12)
Weighted average number of shares Outstanding	17,956	24,020	62,685	84,241	114,185

	December 31,				
	2001	2002	2003	2004	2005
Balance Sheet Data:					
Cash and cash equivalents	$15,205	$18,191	$11,144	$12,802	$13,018
Working capital	18,753	16,503	15,576	16,146	17,218
Total assets	30,161	65,326	68,123	62,358	52,045
Long−term debt, including current portion	509	2,123	721	76	33
Total stockholders' equity	23,663	49,524	52,220	49,249	47,257

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

General

We develop, manufacture and market high performance infrastructure products for wireless voice and data applications. Wireless carriers face many challenges in today's competitive marketplace. Minutes of use are skyrocketing, and wireless users now expect the same quality of service from their mobile devices as from their landline phones. We help wireless carriers meet these challenges by "doing more with less."

Our 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. SuperLink incorporates patented high−temperature superconductor (HTS) technology to create a receiver front−end that enhances network performance. Today, we are leveraging our expertise and proprietary technology in radio frequency (RF) engineering to expand our product line beyond HTS technology. We believe our RF engineering expertise provides us with a significant competitive advantage in the development of high performance, cost−effective solutions for the front end of wireless telecommunications networks.

We have three product offerings:

- *SuperLink*. In order to receive uplink signals from wireless handsets, base stations require a wireless filter system to eliminate, or filter out, out−of−band interference. SuperLink combines HTS filters with a proprietary cryogenic cooler and a cooled low−noise amplifier. The result is a highly compact and reliable receiver front−end that can simultaneously deliver both high selectivity (interference rejection) and high sensitivity (detection of low level signals). SuperLink delivers significant performance advantages over conventional filter systems.

- *AmpLink*. AmpLink is designed specifically to address the sensitivity requirements of wireless base stations. AmpLink is a ground−mounted unit which includes a high−performance amplifier and up to six dual duplexers. The enhanced uplink provided by AmpLink improves network coverage immediately and avoids the installation and maintenance costs associated with tower mounted alternatives.

- *SuperPlex*. SuperPlex is our line of multiplexers that provides extremely low insertion loss and excellent cross−band isolation. SuperPlex high−performance multiplexers are designed to eliminate the need for additional base station antennas and reduce infrastructure costs. Relative to competing technologies, these products offer increased transmit power delivered to the base station antenna, higher sensitivity to subscriber handset signals, and fast and cost−effective network overlays.

We currently sell most of our commercial products directly to wireless network operators in the United States. Our customers to date include ALLTEL, Cingular, Sprint Nextel, T−Mobile, U.S. Cellular and Verizon Wireless. We have a concentrated customer base. Verizon Wireless, ALLTEL and T−Mobile each accounted for more than 10% of our commercial revenues in 2005, and Verizon Wireless and ALLTEL each accounted for more than 10% of our commercial revenues in 2004. We plan to expand our customer base by selling directly to other wireless network operators and manufacturers of base station equipment, but we cannot assure that this effort will be successful.

We also generate significant revenues from government contracts. We primarily pursue government research and development contracts which compliment our commercial product development. We undertake government contract work which has the potential to add to or improve our commercial product line. These contracts often yield valuable intellectual property relevant to our commercial business. We typically own the intellectual property developed under these contracts, and the Federal Government receives a royalty−free, non−exclusive and nontransferable license to use the intellectual property for the United States.

We sell most of our products to a small number of wireless carriers, and their demand for wireless communications equipment fluctuates dramatically and unpredictably. We expect these trends to continue and may cause significant fluctuations in our quarterly and annual revenues.

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 have responded in the past by successfully reducing our product costs, and expect further cost reductions over the next twelve months. However, we cannot predict whether our costs will decline at a rate sufficient to keep pace with the competitive pricing pressures.

Recent Developments — Reverse Stock Split

On March 2, 2006, we announced that our Board of Directors has authorized a one−for−ten (1:10) reverse split of the common stock. We plan to make the reverse stock split effective as of the open of business on March 13, 2006. The reverse stock split was approved by our stockholders last May at the 2005 Annual Meeting.

In the reverse split, each ten shares of issued and outstanding common stock will be converted automatically into one share of common stock. No fractional shares will be issued in connection with the reverse stock split, and holders of fractional shares will receive cash in lieu of their fractional shares. We will have approximately 12.5 million shares outstanding after the reverse split. The reverse split will also have a proportionate affect on all stock options and warrants outstanding immediately prior to the effective date of the reverse split.

We anticipate that our common stock will begin trading on a split−adjusted basis when trading opens on March 13, 2006, with the interim ticker symbol “SCOND.” After 20 days, we expect that the “D” designation will be removed, and our ticker symbol will revert back to “SCON.” Our transfer agent, Registrar and Transfer Company, will mail instructions to all stockholders of record as of March 10, 2006 explaining the process for obtaining new post−split stock certificates.

We are implementing the reverse stock split in order to meet the NASDAQ Capital Market’s maintenance standard that requires us to maintain at least a $1.00 per share minimum bid price. We anticipate that following the reverse stock split, our common stock will trade at a price that is higher than the $1.00 per share minimum bid price. However, there can be no assurance that, after the consummation of the reverse stock split, the common stock will trade at ten (10) times the market price prior to the reverse stock split or above the $1.00 per share minimum bid price.

The share and per share information included in this Annual Report do not reflect the reverse stock split.

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 a provision for excess and obsolete inventory and/or vendor cancellation charges related to purchase commitments. 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 effected 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 2002.

In connection with the acquisition of Conductus we recognized $20 million of goodwill. Goodwill is tested for impairment annually in the fourth quarter after the annual planning process, or earlier if events occur which require an impairment analysis be performed. We operate in a single business segment as a single reporting unit. The first step of the impairment test, used to identify potential impairment, compares the fair value based on market capitalization of the entire organization with the book value of its net assets, including goodwill. (Our market capitalization is based the closing price of our common stock as traded on NASDAQ multiplied by our outstanding common shares.) If the fair value of our company exceeds the book value of our net assets, our goodwill is not considered impaired. If the book value of our net assets exceeds our fair value, the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of the goodwill with the book value of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. At December 31, 2005, we tested the goodwill for possible impairment and determined that there was no impairment. The fair value of the Company based on its market capitalization totaled $53.7 million which is in excess of our total book value. Therefore, our goodwill was not considered impaired. This goodwill will again be tested for impairment in the fourth quarter of 2006 or earlier if events occur which require an earlier assessment. If the carrying amount exceeds its implied fair value, an impairment loss will be recognized equal to the excess. Any future impairment of our goodwill could have a material adverse effect on our financial position and results of operations.

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 business are written off in the period identified since they will no longer generate any positive cash flows for the Company. Periodically, long−lived assets that will continue to be used by the Company 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. Our future cash flows may vary from estimates.

As permitted under Statement of Financial Accounting Standards No. 123 (SFAS 123), “Accounting for Stock−Based Compensation”, we have elected to follow Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” in accounting for its stock options and other stock−based employee awards. Pro forma information regarding net loss and loss per share, as calculated under the provisions of SFAS 123, are disclosed in the notes to the financial statements. We account for equity securities issued to non−employees in accordance with the provision of SFAS 123 and Emerging Issues Task Force 96−18.

If we had elected to recognize compensation expense for employee awards based upon the fair value at the grant date consistent with the methodology prescribed by SFAS 123, our net loss and net loss per share would have been increased to the pro forma amounts indicated below:

	For the years ended December 31,		
Net loss:	**2003**	**2004**	**2005**
	(In thousands, except per share data)		
As reported	$(11,345)	$(31,217)	$(14,213)
Stock−based employee compensation included in net loss	—	48	—
Stock−based compensation expense determined under fair value method	(5,435)	(5,543)	(6,459)
Pro forma	$(16,780)	(36,712)	(20,672)
Basic and Diluted Loss per Share:			
As reported	$ (0.18)	$ (0.37)	$ (0.12)
Stock−based compensation expense determined under fair value method	(0.09)	(0.07)	(0.06)
Pro forma	$ (0.27)	$ (0.44)	$ (0.18)

On December 1, 2005, the Compensation Committee of the Company’s Board of Directors approved the accelerated vesting of all time−vested outstanding out−of−the−money stock options held by current employees or consultants. For this purpose, the Compensation Committee defined “out−of−the−money options” as options having an exercise price equal to or greater than $0.58 per share (the market price on the date of the committee’s decision to accelerate the vesting).

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. We are unable to manufacture the products for technical reasons. We have discussed the problem with the contractor and its government customer. They are considering the problem, and we expect further discussions. We do not believe that a loss is reasonably estimable at this time and therefore have not recorded any liability relating to this matter. We will periodically reassess our potential liability as additional information becomes available. If we later determine that a loss is probable and the amount reasonably estimable, we would record a liability for the potential loss.

Backlog

Our commercial backlog consists of accepted product purchase orders with scheduled delivery dates during the next twelve months. We had commercial backlog of $250,000 at December 31, 2005, as compared to $730,000 at December 31, 2004.

Results of Operations

2005 Compared to 2004

Net revenues increased by $1.2 million, or 5%, from $23.0 million in 2004 to $24.2 million in 2005. 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 increased by $4.3 million, or 26%, to $21.1 million in 2005 from $16.8 million in 2004. The increase is primarily the result of higher sales of our SuperPlex and AmpLink products, partially offset by lower sales and average sale prices of our SuperLink product. Our three largest customers accounted for 95% of our net commercial revenues in 2005, as compared to 92% in 2004. 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 $3.1 million in 2005 from $6.2 million in 2004, a decrease of $3.1 million, or 50%. This decrease is primarily attributable to the completion of contracts in 2004 and 2005 that have not been replaced.

Cost of commercial product revenues includes all direct costs, manufacturing overhead, provision for excess and obsolete inventories and restructuring and impairment charges relating to the manufacturing operations. The cost of commercial product revenues totaled $19.0 million for 2005 as compared to $23.4 million for 2004, a decrease of $4.4 million, or 19%. The lower costs resulted from lower restructuring expenses and a lower provision for obsolete inventory. Restructuring and impairment expenses from severance and "fixed assets write off included in cost of goods sold" totaled $109,000 in 2005 as compared to $1.1 million in 2004. The provision for obsolete inventories totaled $1.0 million in 2005 as compared to $4.8 million in 2004.

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.

The following is an analysis of our commercial product gross profit margins for 2004 and 2005:

	For the Years Ended December 31,			
Dollars in Thousands	2004		2005	
Net commercial product sales	$16,787	100.0%	$21,080	100.0%
Cost of commercial product sales	23,421	139.5%	18,989	90.1%
Gross profit	$ (6,634)	(39.5%)	$ 2,091	9.9%

We had a positive gross margin of $2.1 million in 2005 from the sale of our commercial products as compared to a negative gross margin of $6.6 million in 2004. The gross margin improvement was primarily due to higher sales volumes, lower restructuring expenses, a lower provision for obsolete inventory and the positive results of our cost reduction efforts. Gross margin was also favorably impacted $1.1 million 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 $2.8 million in 2005 as compared to $4.5 million in 2004, a decrease of $1.7 million, or 37%. The decrease was the result of lower expenses associated with performing a fewer number of government contracts, offset by expenses totaling $759,000 on a contract for which no revenue was recognized. See "*Contractual Contingency*" under the Contractual Guarantees and Indemnities Note to the Financial Statements for a description of the non−revenue generating contract.

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 $4.2 million in 2005 as compared to $5.0 million in 2004, a decrease of $800,000, or 16%. 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 $11.4 million in 2005 as compared to $16.1 million in 2004, a decrease of $4.6 million, or 29%. The lower expenses resulted primarily from lower insurance premiums, the cessation of ISCO related litigation expenses, lower legal expenses for other matters, the closure of our Sunnyvale facility and overall lower expense levels resulting from our restructuring activities in 2004 and 2005. These reductions were partially offset by retirement benefits for the previous Chief Executive Officer.

We implemented several restructuring programs and wrote off certain assets in 2004. See "*Management's Discussion and Analysis of Financial Condition and Results and Operations – Results of Operations — 2004 Compared to 2003*." These activities continued in 2005. We implemented another restructuring program, further reduced our workforce and vacated a portion of our leased facility in Santa Barbara. We also recorded an impairment charge of $969,000 related to a shareholder note receivable. See "*Item 3 – Legal Proceedings – Shalvoy Litigation.*" The following table summarizes our restructuring and impairment charges for 2004 and 2005:

	For the Year Ended December 31,					
	Restructuring Charges for 2004	**Impairment Charges for 2004**	**Total for 2004**	**Restructuring Charges for 2005**	**Impairment Charges for 2005**	**Total for 2005**
Severance costs	$ 826,000	$ —	$ 826,000	$ 178,000	$ —	$ 178,000
Fixed assets write offs	803,000	403,000	1,206,000	137,000	—	137,000
Patents, licenses and purchased technology write−off	1,051,000	1,171,000	2,222,000	—	—	—
Lease abandonment costs	279,000	—	279,000	—	—	—
Facility consolidation costs	268,000	—	268,000	6,000	—	6,000
Employee relocation cost	382,000	—	382,000	16,000	—	16,000
Impairment charge for notes receivable from shareholder and board member	—	—	—	—	969,000	969,000
Total	$3,609,000	$1,574,000	$5,183,000	337,000	969,000	1,306,000
Fixed Asset write off and severance costs included in cost of goods sold	669,000	386,000	1,055,000	(109,000)	—	(109,000)
Expense included in operating expenses	$2,940,000	$1,188,000	$4,128,000	$ 228,000	$ 969,000	$1,197,000

Interest income increased in 2005, as compared to the prior year, primarily because we had more cash available for investment and increased interest rates.

Interest expense in 2005 amounted to $116,000, as compared to $1.2 million in 2004. We had higher interest expense in 2004 because of higher borrowing levels and a non−cash charge of $802,000 for warrants issued to the lenders in connection with a bridge loan in April 2004.

Our loss totaled $14.2 million in 2005 as compared to $31.2 in 2004.

The net loss available to common shareholders totaled $0.12 per common share in 2005, as compared to $0.37 per common share in 2004.

2004 Compared to 2003

Net revenues decreased by $26.4 million, or 53%, from $49.4 million in 2003 to $23.0 million in 2004.

Net commercial product revenues decreased to $16.8 million in 2004 from $38.6 million in 2003, a decrease of $21.8 million, or 56%. The decrease is primarily the result of a $21.9 million decline in sales of our SuperLink products. We experienced significant declines in sales of these products to our two largest customers. We anticipated some decline in sales to one of these customers and expected to offset it with the addition of another new major customer in 2004. Our sales efforts were adversely affected in 2004 by, among other things, changes in capital spending patterns and consolidation in the telecommunications industry. Our two largest customers accounted for 87% of our net commercial revenues in 2004 and 85% in 2003. Net commercial product revenue was reduced by $90,000 in 2003 because of the allocation of certain sales proceeds to a warrant issued to one customer in 1999 under a long−term supply agreement. The warrant cost was fully amortized by the end 2003 and did not affect revenues in 2004.

Government contract revenues decreased by $4.6 million, or 43%, from $10.8 million in 2003 to $6.2 million in 2004. This decrease is primarily attributable to the completion of contracts in 2003 and 2004 that have not been replaced.

The cost of commercial product revenue totaled $23.4 million for 2004 and $28.2 million for 2003. Decreased costs result primarily from decreased unit shipments partially offset by increased provision for excess and obsolete inventories and restructuring and impairment charges.

The following is an analysis of our commercial product gross profit margins for 2003 and 2004:

	For the years ended December 31,			
Dollars in Thousands	2003		2004	
Net commercial product sales	$38,577	100.0%	$16,787	100.0%
Total cost of commercial product sales	28,249	73.2%	23,421	139.5%
Gross profit	$10,328	26.8%	$ (6,634)	(39.5%)

We had a negative gross profit of $6.6 million in 2004 from the sale of our commercial products as compared to positive gross profit of $10.3 million in 2003. We experienced negative gross profits in 2004 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 $4.8 million charge for excess and obsolete inventory and a $1.1 million charge for restructuring activities and fixed asset write downs. This compares to $719,000 for a charge for excess and obsolete inventory in 2003.

Contract research and development expenses totaled $4.5 million in 2004 as compared to $6.9 million in 2003. These decreases were the result of lower expenses associated with performing a fewer number of government contracts offset by higher expenses associated with completing a contract.

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 $5.0 million in 2004 as compared to $4.7 million in the prior year. The increase is due to increased commercial products development efforts.

Selling, general and administrative expenses totaled $16.1 million in 2004, as compared to $20.6 million in 2003. The decrease in 2004 results primarily from lower ISCO litigation expenses, the closure of our Sunnyvale facility, reduced payments under our management incentive program and restructuring activities. These decreases were partially offset by higher legal expenses associated with the class action lawsuit and higher expenses related to the documentation and testing of our internal controls as required by the Sarbanes Oxley Act of 2002.

During 2004, we implemented several restructuring programs to streamline our operations and reduce our cost structure. We recorded cash and non−cash restructuring charges of $3.6 million for these activities. We consolidated our Sunnyvale operations into our Santa Barbara facility and reduced our total workforce. The workforce reduction included reductions associated with the Sunnyvale consolidation, as well as other strategic reductions in the organization. In addition, as part of the consolidation, we accelerated a program to implement a new, lower cost wafer deposition process called Reactive Co−Evaporation.

In connection with our 2005 annual planning process performed in the fourth quarter of 2004, we concluded that we would no longer use our thallium high temperature superconducting related technology beyond 2005 because alternative technologies were determined to be more cost effective and we decided we no longer wanted to support two HTS material technologies. As a result, we recorded non−cash charges of $715,000 primarily relating to the write−off of thallium related manufacturing equipment, patents and licenses since they will not be recovered from future cash flows. Also, during our annual planning process we concluded that we would no longer continue to develop or maintain and would abandon certain other non core business patents and patents no longer considered blocking our business, and certain purchased technology. As a result of the abandonment of the purchased technology and patents, we recorded non−cash charges of $842,000 relating to the write−off of these patents and purchased technology since they will not be recovered from future cash flows.

The table below summarizes our restructuring and impairment charges for 2004. We had no similar charges in 2003.

	Restructuring Charges for 2004	Impairment Charges for 2004	Total for 2004
Severance costs	$ 826,000	$ —	$ 826,000
Fixed assets write offs	803,000	403,000	1,206,000
Patents, licenses and purchased technology write−off	1,051,000	1,171,000	2,222,000
Lease abandonment costs	279,000	—	279,000
Facility consolidation costs	268,000	—	268,000
Employee relocation cost	382,000	—	382,000
Total	$3,609,000	$ 1,574,000	$ 5,183,000
Fixed Asset write off and severance costs included in cost of goods sold	669,000	386,000	1,055,000
Expense included in operating expenses	$2,940,000	$ 1,188,000	$ 4,128,000

Interest income decreased in 2004 as compared to the prior year because we had less cash available for investment.

Interest expense in 2004 totaled $1.2 million as compared to $504,000 in 2003. This increase is related primarily to an $802,000 non−cash charge for warrants issued to the lenders in connection with a bridge loan in April 2004.

In April 2004, we settled several substantially identical class action lawsuits filed in the United States District Court for the Central District of California. The settlement was later approved by the court, and the matter is resolved. Our insurers paid $4.0 million into a settlement fund, and we paid up to $50,000 of the costs of providing notice of the settlement to the class members. We recorded a liability at December 31, 2004 on our consolidated balance sheet for the proposed amount of the settlement of $4,050,000. In addition, because the insurance carrier involved in this suit agreed to pay $4.0 million of the settlement amount, and therefore, recovery from the insurance carrier is probable, we also recorded a receivable on our balance sheet for that amount. Accordingly, the settlement had a $50,000 impact on our statement of operations for the year ended December 31, 2004. We included this amount in our selling, general and administrative expenses.

We had a net loss of $31.2 million in 2004 as compared to net loss of $11.3 million in 2003.

The net loss available to common shareholders totaled $0.37 per common share in the 2004, as compared to $0.18 per common share in the previous year.

Liquidity and Capital Resources

Cash Flow Analysis

As of December 31, 2005, we had working capital of $17.2 million, including $13.0 million in cash and cash equivalents, as compared to working capital of $16.1 million at December 31, 2004, which included $12.8 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. We believe that all of our cash investments would be readily available to us should the need arise.

Cash and cash equivalents increased by $216,000 from $12.8 million at December 31, 2004 to $13.0 million at December 31, 2005. Cash was used in operations, for the purchase of property and equipment, for the payment of short and long−term borrowings and for the payment of common stock offering expenses. These uses were offset by gross cash proceeds of $12.5 million received from the sale of common stock in a public offering during the third quarter of 2005. Cash and cash equivalents increased by $1.7 million from $11.1 million at December 31, 2003 to $12.8 million at December 31, 2004. Cash was used in operations for the purchase of property and equipment and for the payment of short and long−term borrowings. These expenditures were offset by cash received from the sale of common stock in two public offerings.

Cash used in operations totaled $9.4 million in 2005. We used $9.0 million to fund the cash portion of our net loss. We also used cash to fund a $3.5 million increase in accounts receivable, patents and other assets and accounts payable payments. These uses were offset by cash generated from lower inventory and prepaid balances totaling $3.1 million. Cash used in operations totaled $21.6 million in 2004. We used $18.3 million to fund the cash portion of our net loss. We also used cash to fund a $10.7 million increase in inventory, prepaid expenses, other current assets, patents and licenses, other assets and accounts payable payments. Inventory increased in 2004 due to lower than expected sales. These uses were partially offset by cash generated from the collection of accounts receivable of $7.4 million. Cash used in operations totaled $18.5 million in 2003. We used $7.2 million to fund the cash portion of our net loss. We also used cash to fund an $11.2 million increase in accounts receivable, inventory, patents and licenses, other assets and accounts payable. Depreciation and amortization expense increased in 2003 due to increased amortization related to the acquired technology in the Conductus acquisition and increased fixed assets expenditures in the prior year.

Net cash used in investing activities totaled $45,000 in 2005, $1.8 million in 2004 and $4.4 million in 2003. In 2005, sales of fixed assets generated $216,000 and essentially offset purchases of property and equipment totaling $261,000. In 2004, our investing activities consisted primarily of purchases of manufacturing equipment and facilities improvements to increase our production capacity. We had similar types of expenditures in 2003, along with a $500,000 upfront license fee for a new technology license.

Net cash provided by financing activities totaled $9.7 million in 2005. Gross cash received from the sale of common stock totaled $12.5 million and borrowings against our line of credit totaled $662,000. Cash used to pay down our line of credit and long term debt totaled $1.6 million. Cash was also used to pay $1.9 million of offering expenses related to the sale of common stock in November 2004 and August 2005. Net cash provided by financing activities totaled $25.1 million in 2004. Gross cash received from the sale of common stock and exercise of warrants totaled $29.8 million and borrowings against our credit and bridge loan facilities totaled $5.6 million. These sources of cash were partially offset by payments against our credit and bridge loan facilities of $7.9 million and payments against our long term debt of $645,000. Net cash provided by financing activities totaled $15.8 million in 2003. Cash received from the sale of common stock and warrants totaled $13.9 million and net borrowings against our credit facility totaled $3.3 million. These funds were partially offset by the reduction in long−term borrowings of $1.4 million.

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 SEC covering the public resale by investors of all the common stock issued in our private placements, as well as any common stock acquired upon exercise of their warrants.

We have an existing line of credit from a bank. It is a material source of funds for our business. The line of credit expires June 15, 2006. 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 (7.25% at December 31, 2005) plus 2.50% subject to a minimum monthly charge. There was no amount outstanding under this borrowing facility at December 31, 2005. 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.

We completed one financing transaction in 2005. In August 2005, we raised net proceeds of $11.4 million in a registered direct public sale of 17,123,288 shares of common stock at $0.73 per share (based on a negotiated discount to market) and 5−year warrants to purchase an additional 3,424,658 shares of common stock exercisable at $1.11 per share. The warrants became exercisable on February 16, 2006.

We completed three financing transactions during 2004. First, in April 2004, we temporarily expanded our credit facility and secured a bridge loan to provide interim funding until we could complete a larger public offering. We temporarily amended our existing line of credit to increase borrowing capacity from 80% to 95% of eligible accounts receivable. We concurrently secured a commitment for a $2.0 million secured bridge loan from an investor. The investor subsequently funded $1.5 million of the bridge loan. We issued to the lenders warrants to purchase in the aggregate 600,000 shares of common stock at $1.85 per share. The bridge loan was subsequently paid in full on May 26, 2004. Upon repayment of the bridge loan, our credit facility reverted back to its original terms.

Second, we completed a public offering of 23,000,000 shares of common stock at $0.80 per share during the second quarter of 2004 raising net proceeds of $16.7 million.

Third, we completed a public offering of 15,600,000 shares of common stock at $0.70 per share during the fourth quarter of 2004 raising net proceeds of $10.1 million.

Contractual Obligations and Commercial Commitments

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

• *Capital Lease Obligations*

Our capital lease obligations are for property and equipment and total $37,000.

• *Operating Lease Obligations*

Our operating lease obligations consist of facility leases in Santa Barbara and Sunnyvale, California. We assumed the Sunnyvale leases in connection with our acquisition of Conductus, Inc. in 2002. The remaining Sunnyvale lease obligations as of December 31, 2005 total $227,000 and are due in two remaining monthly installments through February 2006.

• *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 which 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, 2005, we had the following contractual obligations and commercial commitments:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**2−3 years**	**4−5 years**	**After 5 years**
Capital lease obligations	$ 37,000	$ 22,000	$ 15,000	$ —	$ —
Operating leases	7,982,000	1,414,000	2,543,000	2,717,000	1,308,000
Minimum license commitment	2,120,000	170,000	300,000	300,000	1,350,000
Fixed asset and inventory purchase commitments	2,835,000	2,835,000	—	—	—
Total contractual cash obligations	$12,974,000	$ 4,441,000	$2,858,000	$3,017,000	$ 2,658,000

Capital Expenditures

We plan to invest approximately $600,000 in fixed assets during 2006.

Future Liquidity (and Reverse Stock Split)

Our principal sources of liquidity consist of existing cash balances and funds expected to be generated from future operations. Based on our current forecasts, we expect our existing cash resources will be sufficient to fund our planned operations for at least the next twelve months. We believe the key factors to our liquidity in 2006 will be our ability to successfully execute on our plans to increase sales levels. 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.

If actual cash flows deviate significantly from forecasted amounts, we may require additional financing in the next twelve months. We cannot assure you that additional financing (public or private) 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.

In the last several years, we have raised money from investors to cover our operating losses through public and private offerings. Our ability to continue to raise funds using these methods may be adversely impacted by NASDAQ listing issues. Our continued NASDAQ listing requires us to maintain a minimum stock price of $1 per share. Our stock traded below $1 per share for 30 consecutive business days prior to April 4, 2005. We received a notice of potential delisting from the NASDAQ Stock Market on that date and were provided until October 3, 2005 to regain compliance with the NASDAQ minimum price rule. Since our stock price did not recover by the original deadline and we continued to meet all other listing requirements, on October 5, 2005, we transferred our listing to the NASDAQ Capital Market to secure additional time for regaining compliance and were granted an additional 180−day grace period (until March 30, 2006) to regain compliance with the minimum price requirement. The NASDAQ Stock Market has a continued listing requirement of $1.00 per share for both its National Market System and the Capital Market.

In order to maximize our options for addressing this problem, we submitted a request to our stockholders at our 2005 annual meeting for discretionary authority over the next year to implement a reverse stock split in the range of 1−for−2 to 1−for−10. The stockholders approved that proposal, and we have discretionary authority to take such action anytime prior to May 25, 2006. Our common stock continues to trade below the minimum price requirement. Therefore, we have decided to implement a 1−for−10 reverse stock split effective March 13, 2006.

We cannot predict, however, whether the reverse stock split will achieve the desired result of maintaining our listing on the NASDAQ Stock Market. The price per share of our common stock is also a function of our financial performance and other factors, some of which may be unrelated to the number of shares outstanding. Accordingly, there can be no assurance that the closing bid price of the our common stock after the reverse stock split will increase in an amount proportionate to the decrease in the number of issued and outstanding shares, or will increase at all, or that any increase can be sustained for a prolonged period of time or a sufficient amount of time to regain compliance with the NASDAQ minimum price requirement.

Our financial statements have been prepared assuming that the Company will continue as a going concern. The factors described above raise substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from this uncertainty.

In 2005, we incurred a net loss of $14.2 million and had negative cash flows from operations of $9.4 million. Our independent registered public accounting firm has included in their audit report for fiscal 2005 an explanatory paragraph expressing doubt about our ability to continue as a going concern. They included a similar explanatory paragraph in their audit report for 2002, 2003 and 2004. In 2004 we incurred a net loss of $31.2 million and had negative cash flow from operations of $21.6 million. In response over the past two years, we reduced direct and indirect labor and continued to cut fixed costs. We also consolidated our Sunnyvale operations into our Santa Barbara facility and accelerated the reduction of our production costs. We have also taken several steps to increase our commercial sales. We have introduced new products and are aggressively taking steps to add new customers. In 2005, we hired a new Vice President, World Wide Sales and upgraded the quality of our sales force.

Net Operating Loss Carryforward

As of December 31, 2005, we had net operating loss carryforwards for federal and state income tax purposes of approximately $255.1 million and $128.0 million, respectively, which expire in the years 2006 through 2025. Of these amounts $89.4 million and $30.2 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 have research and development and other tax credits for federal and state income tax purposes of approximately $2.5 million and $1.2 million, respectively, which expire in the years 2006 through 2025. Of these amounts $774,000 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 completed an analysis of our equity transactions and determined that we had a change in ownership in August 1999 and December 2002. Therefore, the ability to utilize net operating loss carryforwards incurred prior to the change of ownership totaling $99.9 million will be subject in future periods to an annual limitation of $1.3 million. 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 Conductus’ net operating loss carryforwards of $89.4 million incurred prior to the ownership changes will be subject in future periods to annual limitation of $700,000. Net operating losses incurred by us subsequent to the ownership changes totaled $65.8 million and are not subject to this limitation.

Future Accounting Requirements

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123(R) (revised 2004), “Share−Based Payment” which amends SFAS Statement 123 and will be effective for public companies for annual periods beginning after June 15, 2005. The new standard will require us to recognize compensation costs in our 2006 financial statements in an amount equal to the fair value of share−based payments granted to employees and directors. In March 2005, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 107 (“SAB 107”), “Share−Based Payment”. SAB 107 provides guidance on the initial implementation of SFAS 123(R). In particular, the statement included guidance related to shares−based payment awards for non−employees, valuation methods and selecting underlying assumptions such as expected volatility and expected terms. It also gives guidance on the classification of compensation expense associated with such awards and accounting for the income tax effects of those awards upon the adoption of SFAS 123(R). For previously issued awards, the Company will adopt SFAS 123(R) on a modified prospective basis and recognize compensation expense on the unvested portion of the awards over the remaining vesting period. SFAS 123(R) is expected to have approximately a $250,000 impact on our results for the year ending December 31, 2006.

In November 2004, the FASB issued SFAS No. 151, “Inventory Costs”, an amendment of ARB No. 43, Chapter 4. This statement amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB No. 43, Chapter 4, previously stated that “...under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges....” SFAS No. 151 requires that those items be recognized as current−period charges regardless of whether they meet the criterion of “so abnormal.” In addition, this statement requires that allocation of fixed production overheads to the cost of conversion be based on the normal capacity of the production facilities. The provisions of SFAS 151 shall be applied prospectively and are effective for inventory costs incurred during fiscal years beginning after June 15, 2005, with earlier application permitted for inventory costs incurred during fiscal years beginning after the date this Statement was issued. We do not expect the adoption of SFAS No. 151 to have a material impact on our financial position and results of operations.

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.

At December 31, 2005, we had approximately $12.5 million invested in a money market account yielding approximately 4.069%. Assuming a 1% 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 $125,000 per annum. Also, at December 31, 2005, we had no amounts outstanding under a $5.0 million bank borrowing arrangement bearing interest at the prime rate (7.25% at December 31, 2005) plus 2.50%. Assuming a 1% increase in the prime rate interest and that the entire line was used for the entire year, interest expense would increase approximately $40,000.

Forward−Looking Statements

This report contains forward−looking statements that involve risks and uncertainties. We have made these statements in reliance on the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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.

Forward−looking statements are not guarantees of future performance and are subject to various risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed in forward−looking statements. They can be affected by many factors, including, but not limited to the following:

- fluctuations in product demand from quarter to quarter which can be significant,
- the impact of competitive filter products, technologies and pricing,
- manufacturing capacity constraints and difficulties,
- market acceptance risks, and
- general economic conditions.

Please read the section in this report entitled “Item 1A — *Risk Factors*” for a description of additional uncertainties and factors that may affect our forward−looking statements. Forward−looking statements are based on information presently available to senior management, and we do not assume any duty to update our forward−looking statements.

Inflation

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

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.

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit, is recorded, processed, summarized and reported, within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms, and such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures..

Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures and have concluded, as of December 31, 2005, that they are effective as described above.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a−15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO Framework”). Based on our evaluation under the COSO Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2005.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report on Page F−1 of this Annual Report on Form 10−K.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the year ended December 31, 2005 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ITEM 9B. OTHER INFORMATION

We disclosed all the information required to be disclosed pursuant to Form 8−K during the fourth quarter of 2005.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding our executive officers and directors is incorporated by reference to the information set forth under the caption "*Directors and Executive Officers*" in our Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our year ended December 31, 2005.

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.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is incorporated by reference to the information set forth under the caption "*Executive Officer Compensation*" in our Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our year ended December 31, 2005.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding security ownership of certain beneficial owners and management is incorporated by reference to the information set forth under the caption "*Voting Securities Of Principal Stockholders And Management*" in our Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our year ended December 31, 2005.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions is incorporated by reference to the information set forth under the caption *"Certain Transactions"* in our Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our year ended December 31, 2005.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND DISCLOSURES

Information regarding accounting fees and disclosures is incorporated by reference to the information set forth under the caption *"Fees Paid to Independent Auditors"* in our Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our year ended December 31, 2005.

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. The following financial statements of the Company and the Report of PricewaterhouseCoopers LLP, 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.

Schedule II — Valuation and Qualifying Accounts F−31

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 the Company (1)
3.2	Certificate of Amendment of Restated Certificate of Incorporation (2)
3.3	Amended and Restated Bylaws of the Registrant (3)
4.1	Form of Common Stock Certificate (4)
4.2	Third Amended and Restated Stockholders Rights Agreement (5)
4.3	Warrant Issued to PNC Bank, National Association in connection with Credit Agreement (5)
4.4	Warrant Purchase Agreement dated December 1, 1999 with PNC Bank (6)
4.5	Warrant Purchase Agreement dated January 12, 2000 with PNC Bank (6)
4.6	Certificate of Designations, Preferences and Rights of Series E Convertible Stock (7)
4.7	Securities Purchase Agreement dated as of September 29, 2000 between the Company and RGC International Investors, LDC. (Exhibits and Schedules Omitted) (7)
4.8	Registration Rights Agreement dated as of September 29, 2000 between the Company and RGC International Investors, LDC. (7)
4.9	Initial Stock Purchase Warrant dated as of September 29, 2000 between the Company and RGC International Investors, LDC. (7)
4.10	Incentive Stock Purchase Warrant dated as of September 29, 2000 between the Company and RGC International Investors, LDC. (7)

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Number	Description of Document
4.11	Registration Rights Agreement, dated March 6, 2002 (8)
4.12	Warrants to Purchase Shares of Common Stock, dated March 11, 2002 (8)
4.13	Registration Rights Agreement dated October 10, 2002 (9)
4.14	Warrants to Purchase Common Stock dated October 10, 2002 (9)
4.15	Common Stock Purchase Agreement, dated March 8, 2002 between Conductus, Inc. and the investors signatory thereto (10)
4.16	Warrant to Purchase Common Stock, dated March 8, 2002 by Conductus, Inc. to certain investors (11)
4.17	Registration Rights Agreement, dated March 26, 2002, between Conductus, Inc. and certain investors (11)
4.18	Warrant to Purchase Common Stock, dated August 7, 2000, issued by Conductus to Dobson Communications Corporation (12) *
4.19	Form of Series B Preferred Stock and Warrant Purchase Agreement dated September 11, 1998 and September 22, 1998 between Conductus and Series B Investors (13)
4.20	Form of Warrant to Purchase Common Stock between Conductus and Series B investors, dated September 28, 1998, issued by Conductus in a private placement (13)
4.21	Form of Series C Preferred Stock and Warrant Purchase Agreement, dated December 10, 1999, between Conductus and Series C Investors (14)
4.22	Form of Warrant Purchase Common Stock between Conductus and Series C investors, dated December 10, 1999, issued by Conductus in a private placement (14)
4.23	Form of Warrant to Purchase Common Stock dated March 28, 2003, issued to Silicon Valley Bank (15)
4.24	Form of Warrant (16)
4.25	Form of Registration Rights Agreement (16)
4.26	Agility Capital Warrant dated May 2004 (17)
4.27	Silicon Valley Bank Warrant dated May 2004(17)
4.28	Form of Warrant dated August 2005 (18)
10.1	1992 Director Option Plan (19)
10.2	1992 Stock Option Plan (19)
10.3	Joint Venture Company (JDC) Agreement between the Registrant and Sunpower Incorporated dated April 2, 1992(19)*
10.4	Government Contract issued to Registrant by the Defense Advanced Research Projects Agency through the Office of Naval Research dated September 4, 1991 (19)
10.5	License Agreement between the Registrant and E.I. DuPont de Nemours and Company dated December 1992 (19) *
10.6	Amended and Restated 1988 Stock Option Plan, as amended, with form of stock option agreement (20)
10.7	1999 Stock Option Agreement (6)
10.8	1998 Stock Option Plan (21)
10.10(a)	Promissory Note between Charles E. Shalvoy and Conductus dated December 28, 2000 (22)
10.10(b)	Security Agreement between Charles E. Shalvoy and Conductus dated December 28, 2000 (22)
10.10(c)	Promissory Note Agreement between Charles E. Shalvoy and Conductus dated August 21, 2001 (22)

10.10(d) Security Agreement between Charles E. Shalvoy and Conductus dated August 21, 2000 (22)

10.11(a) Form of Change of Control Agreement dated March 28, 2003 (23)

10.11(b) Form of Amendment to Change of Control Agreement dated as of May 24, 2005 *

10.12(a) Accounts Receivable Purchase Agreement dated March 28, 2003 by and between Registrant and Silicon Valley Bank (23)

10.12(b) Accounts Receivable Purchase Modification Agreement with Silicon Valley Bank dated March 17, 2004 (24)

Number	Description of Document
10.12(c)	Accounts Receivable Purchase Modification Agreement with Silicon Valley Bank dated March 29, 2005 (25)
10.12(d)	Unconditional Guaranty dated March 27, 2003 issued by Conductus, Inc. to Silicon Valley Bank (23)
10.13	Patent License Agreement between Telcordia Technologies, Inc. and Registrant dated July 13, 2002 (23)*
10.14(a)	Securities Purchase Agreement dated June 23, 2003 (26)
10.14(b)	Form of Investor Warrant (26)
10.14(c)	Form of Registration Rights Agreement (26)
10.15	Patent License Agreement by and between Lucent Technologies and the Company ** (27)
10.16	Consulting Agreement with Charles Shalvoy dated November 4, 2004 (30)
10.17	License Agreement with Sunpower ** (30)
10.18(a)	Employment Agreement with Jeffrey Quiram (28)
10.18(b)	Option Agreement with Jeffrey Quiram (28)
10.19(a)	2003 Equity Incentive Plan (as amended May 25, 2005) (29)
10.19(b)	Form of Option Agreement for 2003 Equity Incentive Plan (28)
10.20	Employment Agreement with Terry White (30)
10.21	Compensation Policy for Non−Employee Directors dated March 18, 2005 (30)
10.22	Stipulation of Settlement to Class Action dated as of March 8, 2005(30)
10.23(a)	Placement Agency Agreement by and between the Company and SG Cowen & Co., Inc. dated August 10, 2005 (31)
10.23(b)	Form of Subscription Agreement for August 2005 offering (31)
10.24	Form of Director and Officer Indemnification Agreement *
10.25	Code of Business Conduct and Ethics *
21	List of Subsidiaries
23	Consent of Independent Registered Public Accounting Firm
31.1	Statement of CEO Pursuant to 302 of the Sarbanes−Oxley Act of 2002
31.2	Statement of CFO Pursuant to 302 of the Sarbanes−Oxley Act of 2002
32.1	Statement of CEO Pursuant to 906 of the Sarbanes−Oxley Act of 2002
32.2	Statement of CFO Pursuant to 906 of the Sarbanes−Oxley Act of 2002

(1) Incorporated by reference from the Registrant’s Quarterly Report on Form 10−Q filed for the quarter ended April 3, 1999.
(2) Incorporated by reference from the Registrant’s Quarterly Report on Form 10−Q filed for the quarter ended June 30, 2001.
(3) Incorporated by reference from Registrant’s Form 8−K dated May 25, 2005.
(4) Incorporated by reference from the Registrant’s Registration Statement on Form S−1 (Reg. No. 33−56714).
(5) Incorporated by reference from the Registrant’s Quarterly Report on Form 10−Q filed for the quarter ended July 3, 1999.
(6) Incorporated by reference from the Registrant’s Registration Statement on Form S−8 (Reg. No. 333−90293).
(7) Incorporated by reference from the Registrant’s Annual Report on Form 10−K for the year ended December 31, 1999.
(8) Incorporated by reference from Registrant’s Annual Report on Form 10−K for the year ended December 31, 2001.
(9) Incorporated by reference from the Registrant’s Current Report on Form 8−K, filed October 2, 2002.

(10) Incorporated by reference from the Registrant's Annual Report on Form 10−K filed for the year ended December 31, 1997.

(11) Incorporated by reference from the Conductus, Inc.'s Registration Statement on Form S−3 (Reg. No. 333−85928) filed on April 9, 2002.

(12) Incorporated by reference from Conductus, Inc.'s Quarterly Report on Form 10−Q, filed with the SEC on November 16, 1998.

(13) Incorporated by reference from Conductus, Inc.'s Annual Report on Form 10−K for the year ended December 31, 1999.

(14) Incorporated by reference from Conductus, Inc.'s Annual Report on Form 10−K for the year ended December 31, 1999.

(15) Incorporate by reference from Registrant's Quarterly Report on Form 10−Q for the quarter ended March 29, 2003.

(16) Incorporated by reference from Registrant's Current Report on Form 8−K filed June 25, 2003.

(17) Incorporated by reference from Registrants' Registration Statement of Form S−3 (Reg. 333−89184).

(18) Incorporated by reference from Registrant's Form 8−K dated August 10, 2005.

(19) Incorporated by reference from Amendment No. 1 to the Registrant's Registration Statement on Form S−1 (Reg. No. 33−56714).

(20) Incorporated by reference from the Registrant's Annual Report on Form 10−K filed for the year ended December 31, 1994.

(21) Incorporated by reference from the Registrant's Registration Statement on Form S−8 (Reg. No. 333−56606) filed March 6, 2001.

(22) Incorporated by reference from the Registrant's Registration Statement on Form S−4 (Reg. No. 333−100908).

(23) Incorporate by reference from Registrant's Quarterly Report on Form 10−Q for the quarter ended March 29, 2003.

(24) Incorporated by reference from Registrant's Quarterly Report on Form 10−Q for the quarter ended April 3, 2004.

(25) Incorporated by reference from Registrants' Form 8−K dated March 29, 2005.

(26) Incorporated by reference from Registrant's Current Report on Form 8−K filed June 25, 2003.

(27) Incorporated by reference from Registrant's Annual Report on Form 10−K for the year ended December 31, 2003.

(28) Incorporated by reference from Registrant's Annual Report on Form 10−K for the year ended December 31, 2004.

(29) Incorporated by reference from Registrant's Form 8−K dated May 25, 2005.

(30) Incorporated by reference from Registrant's Quarterly Report on Form 10−Q for the quarter ended April 2, 2005.

(31) Incorporated by reference from Registrants' Form 8−K dated March 29, 2005

* Filed herewith.

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

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

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 7th day of March 2006.

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 Martin S. McDermut, 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 7, 2006
/s/ Martin S. McDermut Martin S. McDermut	Senior Vice President, Chief Financial Officer and Secretary (Principal Financial Officer)	March 7, 2006
/s/ William J. Buchanan William J. Buchanan	Controller (Principal Accounting Officer)	March 7, 2006
/s/ John F. Carlson John F. Carlson	Director	March 7, 2006
/s/ Lynn J. Davis Lynn J. Davis	Director	March 7, 2006
/s/ Dennis J. Horowitz Dennis J. Horowitz	Director	March 7, 2006
/s/ Martin A. Kaplan Martin A. Kaplan	Director	March 7, 2006
/s/ John D. Lockton John D. Lockton	Chairman of the Board	March 7, 2006
Charles E. Shalvoy	Director	

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Superconductor Technologies Inc.:

We have completed integrated audits of Superconductor Technologies Inc.'s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Superconductor Technologies Inc. and its subsidiaries at December 31, 2005 and December 31, 2004 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements 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. An audit of financial statements 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has had recurring losses and used $9.4 million in cash for operations in 2005. These matters raise a substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty

Internal control over financial reporting

Also, in our opinion, management's assessment, included "Management's Report on Internal Control Over Financial Reporting," appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control − Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria.

Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
Los Angeles, California
March 3, 2006

SUPERCONDUCTOR TECHNOLOGIES INC.

CONSOLIDATED BALANCE SHEET

	December 31, 2004	December 31, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 12,802,000	$ 13,018,000
Accounts receivable, net	1,434,000	2,166,000
Inventory, net	9,327,000	5,364,000
Insurance settlement receivable	4,000,000	—
Prepaid expenses and other current assets	906,000	723,000
Total Current Assets	**28,469,000**	**21,271,000**
Property and equipment, net of accumulated depreciation of $15,189,000 and $17,295,000, respectively	10,303,000	7,803,000
Patents, licenses and purchased technology, net of accumulated amortization of $768,000 and $1,065,000, respectively	2,833,000	2,514,000
Goodwill	20,107,000	20,107,000
Other assets	646,000	350,000
Total Assets	**$ 62,358,000**	**$ 52,045,000**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Line of credit	$ 938,000	$ —
Accounts payable	2,691,000	2,036,000
Accrued expenses	4,601,000	1,998,000
Legal settlement liability	4,050,000	—
Current portion of capitalized lease obligations and long term debt	43,000	19,000
Total Current Liabilities	**12,323,000**	**4,053,000**
Capitalized lease obligations and long term−debt	33,000	14,000
Other long term liabilities	753,000	721,000
Total Liabilities	**13,109,000**	**4,788,000**
Commitments and contingencies−Notes 9, 10 and 11		
Stockholders' Equity:		
Preferred stock, $.001 par value, 2,000,000 shares authorized, none issued and outstanding	—	—
Common stock, $.001 par value, 250,000,000 shares authorized, 107,711,026 and 124,834,314 shares issued and outstanding, respectively	108,000	125,000
Capital in excess of par value	196,983,000	208,432,000
Notes receivable from stockholder and board member	(820,000)	(65,000)
Accumulated deficit	(147,022,000)	(161,235,000)
Total Stockholders' Equity	**49,249,000**	**47,257,000**
Total Liabilities and Stockholders' Equity	**$ 62,358,000**	**$ 52,045,000**

See accompanying notes to the consolidated financial statements

SUPERCONDUCTOR TECHNOLOGIES INC.

CONSOLIDATED STATEMENT OF OPERATIONS

	For the Year Ended December 31		
	2003	2004	2005
Net revenues:			
Net commercial product revenues	$ 38,577,000	$ 16,787,000	$ 21,080,000
Government and other contract revenues	10,759,000	6,189,000	3,107,000
Sub license royalties	58,000	28,000	22,000
Total net revenues	**49,394,000**	**23,004,000**	**24,209,000**
Costs and expenses:			
Cost of commercial product revenues	28,249,000	23,421,000	18,989,000
Contract research and development	6,899,000	4,465,000	2,806,000
Other research and development	4,697,000	5,036,000	4,214,000
Selling, general and administrative	20,567,000	16,051,000	11,442,000
Restructuring expenses and impairment charges	—	4,128,000	1,197,000
Total costs and expenses	**60,412,000**	**53,101,000**	**38,648,000**
Loss from operations	(11,018,000)	(30,097,000)	(14,439,000)
Interest income	177,000	125,000	342,000
Interest expense	(504,000)	(1,245,000)	(116,000)
Net loss	**(11,345,000)**	**(31,217,000)**	**(14,213,000)**
Basic and diluted net loss per common share	**($0.18)**	**($0.37)**	**($0.12)**
Basic and diluted weighted average number of common shares outstanding	**62,685,292**	**84,241,447**	**114,185,036**

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 Par Value	Receivable From Stockholder	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2002	—	$ —	59,823,553	$ 60,000	$154,744,000	$(820,000)	$(104,460,000)	$ 49,524,000
Exercise of stock options			56,687		173,000			173,000
Issuance of common stock and warrants for cash			5,116,278	5,000	10,060,000			10,065,000
Exercise of warrants			3,910,591	4,000	3,618,000			3,622,000
Issuance of options and warrants					181,000			181,000
Net loss							(11,345,000)	(11,345,000)
Balance at December 31, 2003	—	—	68,907,109	69,000	$168,776,000	(820,000)	(115,805,000)	52,220,000
Exercise of stock options			89,748	—	250,000			250,000
Issuance of common stock			38,600,000	39,000	26,748,000			26,787,000
Exercise of warrants			114,169	—	236,000			236,000
Issuance of options and warrants					973,000			973,000
Net loss							(31,217,000)	(31,217,000)
Balance at December 31, 2004	—	—	107,711,026	108,000	196,983,000	(820,000)	(147,022,000)	49,249,000
Issuance of common stock and warrants			17,123,288	17,000	11,424,000			11,441,000
Issuance of options					25,000			25,000
Reserve for impairment						755,000		755,000
Net loss							(14,213,000)	(14,213,000)
Balance at December 31, 2005	—	—	124,834,314	$125,000	$208,432,000	$ (65,000)	$(161,235,000)	$ 47,257,000

See accompanying notes to the consolidated financial statements.

SUPERCONDUCTOR TECHNOLOGIES INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Year Ended December 31		
	2003	2004	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(11,345,000)	$(31,217,000)	$(14,213,000)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	3,277,000	3,463,000	3,225,000
Non−cash restructuring and impairment charges	—	3,659,000	—
Warrants and options charges	104,000	973,000	25,000
Provision for excess and obsolete inventories	719,000	4,836,000	984,000
Forgiveness of note receivable from former CEO	—	—	150,000
Reserve for impairment of note and interest receivable from stockholder	—	—	924,000
Gain on disposal of property and equipment	—	—	(138,000)
Changes in assets and liabilities:			
Accounts receivable	(5,404,000)	7,375,000	(732,000)
Inventory	(3,174,000)	(5,361,000)	2,979,000
Prepaid expenses and other current assets	(184,000)	(146,000)	112,000
Patents and licenses	(531,000)	(546,000)	(154,000)
Other assets	(114,000)	(46,000)	(23,000)
Accounts payable and accrued expenses	(1,806,000)	(4,570,000)	(2,543,000)
Net cash used in operating activities	(18,458,000)	(21,580,000)	(9,404,000)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the sale of property and equipment	—	—	216,000
Purchase of property and equipment	(3,855,000)	(1,812,000)	(261,000)
Payment of up front license fee	(500,000)	—	—
Net cash used in investing activities	(4,355,000)	(1,812,000)	(45,000)
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from short−term borrowings	7,234,000	5,567,000	662,000
Payments on short−term borrowings	(3,926,000)	(7,937,000)	(1,600,000)
Payments on long−term obligations	(1,402,000)	(645,000)	(43,000)
Gross proceeds from sale of common stock and exercise of warrants and options	14,795,000	29,829,000	12,500,000
Payment of common stock issuance costs	(935,000)	(1,764,000)	(1,854,000)
Net cash provided by financing activities	15,766,000	25,050,000	9,665,000
Net increase (decrease) in cash and cash equivalents	(7,047,000)	1,658,000	216,000
Cash and cash equivalents at beginning of year	18,191,000	11,144,000	12,802,000
Cash and cash equivalents at end of year	$ 11,144,000	$ 12,802,000	$ 13,018,000

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 its subsidiaries, the “Company”) was incorporated in Delaware on May 11, 1987 and maintains its headquarters in Santa Barbara, California. The Company operates in a single industry segment, the research, development, manufacture and marketing of high−performance infrastructure products for wireless voice and data applications. The Company’s commercial products are divided into three product offerings: SuperLink (high−temperature superconducting filters), AmpLink (high performance, ground−mounted amplifiers) and SuperPlex (high performance multiplexers). The Company’s research and development contracts are used as a source of funds for its commercial technology development. From 1987 to 1997, the Company was engaged primarily in research and development and generated revenues primarily from government research contracts.

The Company continues 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 the Company. For the years ended December 31, 2003, 2004, and 2005, government related contracts account for 22%, 27% and 13%, respectively, of the Company’s net revenues.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

In 2005, the Company incurred a net loss of $14,213,000 and negative cash flows from operations of $9,404,000.

The Company’s principal sources of liquidity consists of existing cash balances, a bank line of credit and funds expected to be generated from future operations. The Company expects its existing cash resources, together with its line of credit will be sufficient to fund its planned operations for at least the next twelve months. The Company believes the key factors to its liquidity in 2006 will be its ability to successfully execute on its plans to increase sales levels. There is no assurance that the Company will be able to increase sales levels. Its 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.

If actual cash flows deviate significantly from forecasted amounts, the Company may require additional financing in the next twelve months. There is no assurance that additional financing (public or private) will be available on acceptable terms or at all. If the Company issues additional equity securities to raise funds, the ownership percentage of its existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of common stock. If the Company cannot raise any needed funds, it might be forced to make further substantial reductions in its operating expenses, which could adversely affect its ability to implement its current business plan and ultimately its viability as a company.

The Company’s financial statements have been prepared assuming that it will continue as a going concern. The factors described above raise substantial doubt about its ability to continue as a going concern. These financial statements do not include any adjustments that might result from this uncertainty.

Principles of Consolidation

The consolidated financial statements include the accounts of Superconductor Technologies Inc. and its wholly owned subsidiaries (the “Company”). 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, the Company has not experienced any losses due to such concentration of credit risk.

Accounts Receivable

The Company sells predominantly to entities in the wireless communications industry and to entities of the United States government. The Company grants uncollateralized credit to its customers. The Company performs ongoing credit evaluations of its 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. The Company determines the allowance based on historical write−off experience. Past due balances are reviewed for collectibility. Accounts balances are charged off against the allowance when the Company deems it is probable the receivable will not be recovered. The Company does not have any off balance sheet credit exposure related to its customers.

Revenue Recognition

Commercial revenues are principally derived from the sale of the Company's 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 the Company 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 2002 are closed. Based on historical experience and review of current projects in process, management believes that the audits will not have a significant effect on the financial position, results of operations or cash flows of the Company.

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

The Company offers warranties generally ranging from one to five years, depending on the product and negotiated terms of purchase agreements with its customers. Such warranties require the Company to repair or replace defective product returned to the Company during such warranty period at no cost to the customer. An estimate by the Company for warranty related costs is recorded by the Company at the time of sale based on its actual historical product return rates and expected repair costs. Such costs have been within management's expectations.

Guarantees

In connection with the sales and manufacturing of its commercial products, the Company indemnifies, without limit or term, its customers and contract manufactures 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 its products or other claims arising from its products. The Company cannot reasonably develop an estimate of the maximum potential amount of payments that might be made under its guarantee because of the uncertainty as to whether a claim might arise and how much it might total. Historically, the Company has 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. Provision for potentially obsolete or slow moving inventory is made based on management’s analysis of inventory levels and sales forecasts. 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.

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 is 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 December 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 the Company’s fund raising abilities.

Goodwill is tested for impairment annually in the fourth quarter after the annual planning process, or earlier if events occur which require an impairment analysis be performed. The Company operates in a single business segment as a single reporting unit. The first step of the impairment test, used to identify potential impairment, compares the fair value based on market capitalization of the entire Company with its book value of its net assets, including goodwill. (The market capitalization of the Company is based on the closing price of its common stock as traded on NASDAQ multiplied by its outstanding common shares.) If the fair value of the Company exceeds the book value of its net assets, goodwill of the Company is not considered impaired. If the book value of the net assets of the Company exceeds its fair value, the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of the goodwill with the book value of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. At December 31, 2005, the fair value of the Company based on its market capitalization totaled $53.7 million, which is in excess of the total book value of the Company. Therefore, the Company’s goodwill was not considered impaired.

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 the Company. Periodically, long lived assets that will continue to be used by the Company 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.

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 business the Company is 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 defending the Company in such matters are expensed as incurred. Insurance proceeds recoverable are recorded when deemed probable.

Income Taxes

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109 (“SFAS 109”), “Accounting for Income Taxes.” SFAS 109 utilizes an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company’s financial statements or tax returns. In estimating future tax consequences, SFAS 109 generally considers all expected future events other than enactments of changes in the tax laws or rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Marketing Costs

All costs related to marketing and advertising the Company’s 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, 2005.

Net Loss Per Share

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

Stock−based Compensation

As permitted under Statement of Financial Accounting Standards No. 123 (“SFAS 123”), “Accounting for Stock−Based Compensation”, the Company has elected to follow Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” in accounting for its stock options and other stock−based employee awards. Pro forma information regarding net loss and loss per share, as calculated under the provisions of SFAS 123, are disclosed in the notes to the financial statements. The Company accounts for equity securities issued to non−employees in accordance with the provision of SFAS 123 and Emerging Issues Task Force 96−18.

If the Company had elected to recognize compensation expense for employee awards based upon the fair value at the grant date consistent with the methodology prescribed by SFAS 123, the Company’s net loss and net loss per share would have been increased to the pro forma amounts indicated below:

	For the years ended December 31,		
	2003	**2004**	**2005**
Net loss:			
As reported	$(11,345,000)	$(31,217,000)	$(14,213,000)
Stock−based employee compensation included in net loss	—	48,000	—
Stock−based compensation expense determined under fair value method	(5,435,000)	(5,543,000)	(6,459,000)
Pro forma	$(16,780,000)	$(36,712,000)	$(20,672,000)
Basic and diluted loss per share			

	For the years ended December 31,		
	2003	2004	2005
As reported	$ (0.18)	$ (0.37)	$ (0.12)
Stock−based compensation expense determined under fair value method	(0.09)	(0.07)	(0.06)
Pro forma	$ (0.27)	$ (0.44)	$ (0.18)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting 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. The Company estimates that the carrying amount of the debt approximates fair value based on the Company’s current incremental borrowing rates for similar types of borrowing arrangements.

Comprehensive Income

The Company has no items of other comprehensive income in any period and consequently does not report comprehensive income.

Segment Information

The Company operates 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 the Company’s SuperLink, AmpLink and SuperPlex products. The Company currently sells most of its 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.

Certain Risks and Uncertainties

The Company’s long−term prospects are dependent upon the continued and increased market acceptance for the product.

The Company currently sells most of its products directly to wireless network operators in the United States and its product sales have historically been concentrated in a small number of customers. In 2005, the Company had three customers that represented 31%, 37% and 15% of total net revenues. At December 31, 2005, these three customers represented 95% of accounts receivable. In 2004, the Company had two customers that represented 46% and 17% of total net revenues. In 2003, the Company had two customers that represented 55% and 12% 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 the Company’s business, financial condition, results of operations and cash flows.

The Company currently relies on one supplier for purchase of high quality substrates for growth of high−temperature superconductor films and a limited number of suppliers for other key components of its products. The loss of any of these suppliers could have material adverse effect on the Company's business, financial condition, results of operations and cash flows.

In connection with the sales of its commercial products, the Company indemnifies, without limit or term, its 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 its products or other claims arising from its products. The Company cannot reasonably develop an estimate of the maximum potential amount of payments that might be made under its guarantee because of the uncertainty as to whether a claim might arise and how much it might total.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123(R) (revised 2004), "Share−Based Payment" which amends SFAS Statement 123 and will be effective for public companies for annual periods beginning after June 15, 2005. The new standard will require us to recognize compensation costs in our 2006 financial statements in an amount equal to the fair value of share−based payments granted to employees and directors. In March 2005, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107"), "Share−Based Payment". SAB 107 provides guidance on the initial implementation of SFAS 123(R). In particular, the statement included guidance related to shares−based payment awards for non−employees, valuation methods and selecting underlying assumptions such as expected volatility and expected terms. It also gives guidance on the classification of compensation expense associated with such awards and accounting for the income tax effects of those awards upon the adoption of SFAS 123(R). For previously issued awards, the Company will adopt SFAS 123(R) on a modified prospective basis and recognize compensation expense on the unvested portion of the awards over the remaining vesting period. SFAS 123(R) is expected to have approximately a $250,000 impact on our results for the year ending December 31, 2006.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs", an amendment of ARB No. 43, Chapter 4. This statement amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB No. 43, Chapter 4, previously stated that "...under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges...." SFAS No. 151 requires that those items be recognized as current−period charges regardless of whether they meet the criterion of "so abnormal." In addition, this statement requires that allocation of fixed production overheads to the cost of conversion be based on the normal capacity of the production facilities. The provisions of SFAS 151 shall be applied prospectively and are effective for inventory costs incurred during fiscal years beginning after June 15, 2005, with earlier application permitted for inventory costs incurred during fiscal years beginning after the date this Statement was issued. We do not expect the adoption of SFAS No. 151 to have a material impact on our financial position and results of operations.

Note 3−Short Term Borrowings

The Company has a line of credit with a bank. The line of credit expires June 15, 2006 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 the Company totaling 80% of the receivables sold. Advances under the agreement are collateralized by all the Company's assets. Under the terms of the agreement, the Company continues to service the sold receivables and is subject to recourse provisions.

Advances bear interest at the prime rate (7.25% at December 31, 2005) plus 2.50% subject to a minimum monthly charge. There was no amount outstanding under this borrowing facility at December 31, 2005.

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 the Company's 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.

On April 28, 2004 the Company temporarily expanded its credit facility. Silicon Valley Bank temporarily amended the Company's existing line of credit to increase borrowing capacity from 80% to 95% of eligible accounts receivable on up to the sale of $2.5 million of eligible accounts receivable. Advances under the modified agreement bore interest at prime rate plus 5.125%. Upon repayment of the bridge loan described below this credit facility reverted back to its original terms.

The Company concurrently secured a commitment for a $2.0 million secured bridge loan from an investor. The bridge loan bore interest at 12% per annum, was due by July 31, 2004 and included penalty provisions if there were any defaults under the agreement. The investor subsequently funded $1.5 million of the bridge loan. The bridge loan was collateralized by all the Company's assets and was subordinated to the Silicon Valley Bank line of credit. The bridge loan was subsequently paid in full on May 26, 2004.

In connection with modification of the existing credit facility with Silicon Valley Bank and $2 million bridge loan, the Company issued to the bank warrants to purchase 100,000 shares of common stock at $1.85 per share and to the bridge lender warrants to purchase 500,000 shares of common stock at $1.85 per share. The warrant to the bridge lender contains antidilution provisions. These warrants expire on April 28, 2011. The fair value of the warrants issued in connection with the bridge loans were estimated using the Black−Scholes option pricing method, totaled $802,000 and were accounted for as debt issuances costs and amortized over the term of the loan. Assumptions used in the calculation were: dividends of zero percent each year, expected volatilities of 112%, contractual life of 7 years and risk free interest rate of 3.99%.

As a result of common stock issuances in 2004 and 2005, the exercise price and the number of shares of the warrants issued to a bridge lender under the 2004 Bridge Loan was adjusted to $1.33 and 695,489, respectively. The Silicon Valley Bank warrant remains unchanged.

Note 4 – Retirement of Company's Chief Executive Officer

On March 15, 2005, the Company's Chief Executive Officer and President retired. In connection with the retirement, the Company agreed to the continuation of his salary and benefits for one year and to immediately vest and extend all his outstanding stock options and the executive agreed to provide certain consulting services as requested by the Company. Also, in connection with the retirement, a $150,000 loan made to the Company's Chief Executive Officer in 2001, and in accordance with the existing terms of a promissory note which were in effect prior to the adoption of the Sarbanes−Oxley Act of 2002, was forgiven. The Company recognized expense of $565,000 relating to the retirement of the CEO in the year ended December 31, 2005.

Note 5 – Notes Receivable From Stockholder

Mr. Shalvoy, a director and stockholder, owed us a total of $820,244 of principal, plus accrued interest of more than $214,000, under two, full recourse promissory notes as of December 31, 2005. The notes are collateralized by 151,762 shares of the Company's common stock with a market value of approximately $65,000 as of December 31, 2005. Mr. Shalvoy notified us in December 2005 of his intention not to repay either of the loans. Notwithstanding its firm belief that the notes are valid and binding debt obligations, the Company concluded that generally accepted accounting principles require the recording of a material, non−cash reserve against these assets in the fourth quarter of 2005 due to the borrower's refusal to pay the notes voluntarily. The reserve of $969,000 represents the total value of the notes (principal plus accrued interest) less the market value of the collateral. The collateral value of the notes is included in Stockholder's Equity. The Company will reserve any default interest recognized in accordance with the terms of the notes. See "Shalvoy Litigation" in the Legal Proceedings footnote for a full description of this matter.

Note 6 – Income Taxes

The Company has incurred a net loss in each year of operation since inception resulting in no current or deferred tax expense for the years ended December 31, 2003, 2004 and 2005.

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 the years ended December 31, 2003, 2004 and 2005 as follows:

	For the Year Ending December 31		
	2003	2004	2005
Tax benefit computed at Federal statutory rate	34.0%	34.0%	34.0%
Increase (decrease) in taxes due to:			
Change in valuation allowance	(39.8)	(39.8)	(39.8)
State taxes, net of federal benefit	5.8	5.8	5.8
Other	—	—	—
	—%	—%	—%

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

	For the Year Ended December 31,	
	2004	2005
Loss carryforwards	**$ 90,135,000**	**$ 93,521,000**
Capitalized research and development	**6,021,000**	**5,236,000**
Depreciation	**2,520,000**	**2,306,000**
Tax credits	**4,248,000**	**3,538,000**
Inventory	**2,152,000**	**1,311,000**
Purchase accounting adjustments	**1,162,000**	**138,000**
Acquired intellectual property	**(456,000)**	**(383,000)**
Other	**847,000**	**632,000**
Less: valuation allowance	**(106,629,000)**	**(106,299,000)**
	$ —	$ —

The valuation allowance increased by $12,053,000 in 2004 and decreased by $330,000 in 2005.

As of December 31, 2005, the Company has net operating loss carryforwards for federal and state income tax purposes of approximately $255.1 million and $128.0 million**,** respectively, which expire in the years 2006 through 2025. Of these amounts $89.4 million and $30.2 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, the Company has research and development and other tax credits for federal and state income tax purposes of approximately $2.5 million and $1.2 million, respectively, which expire in the years 2006 through 2025. Of these amounts $774,000 and $736,000, respectively resulted from the acquisition of Conductus.

Due to the uncertainty surrounding their realization, the Company has recorded a full valuation allowance against its 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. Recently the Company completed an analysis of its equity transactions and determined that it had a change in ownership in August 1999 and December 2002. Therefore, the ability to utilize net operating loss carryforwards incurred prior to the change of ownership totaling $99.9 million will be subject in future periods to an annual limitation of $1.3 million. In addition, the Company 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 Conductus' net operating loss carryforwards of $89.4 million incurred prior to the ownership changes will be subject in future periods to annual limitation of $700,000. Net operating losses incurred by the Company subsequent to the ownership changes totaled $65.8 million and are not subject to this limitation.

Note 7 – Stockholders' Equity

Preferred Stock

Pursuant to the Company's 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.

Common Stock

In August 2005, the Company raised net proceeds of $11,441,000, net of offering costs of $1,059,000, from the public sale of 17,123,288 shares of common stock at $0.73 per share based on a negotiated discount to market and 5−year warrants to purchase an additional 3,424,658 shares of common stock exercisable at $1.11 per share. The warrants become exercisable on February 16, 2006. This transaction caused the exercise price and the number of shares of the warrants issued to a bridge lender under the 2004 bridge loan to be adjusted to $1.33 and 695,489, respectively, under the anti−dilution provisions of the warrants.

In November 2004 the Company raised net proceeds of $10,065,000, net of offering costs of $855,000, from the public sale of 15,600,000 shares of common stock at $0.70 per share based on a negotiated discount to market. This transaction caused the exercise price and the number of shares of the warrants issued to a bridge lender under the 2004 Bridge Loan to be adjusted to $1.46 and 633,562, respectively.

In May 2004 the Company raised net proceeds of $16,699,000, net of offering costs of $1,701,000, from the public sale of 23,000,000 shares of common stock at $0.80 per share based on a negotiated discount to market. This transaction caused the exercise price and the number of shares of the warrants issued to a bridge lender under the 2004 bridge loan to be adjusted to $1.59 and 581,761, respectively.

In June 2003 the Company raised net proceeds of $10,065,000 from the private sale of 5,116,278 shares of common stock at $2.15 per share based on a negotiated discount to market and 5−year warrants to purchase an additional 1,279,069 shares of common stock exercisable at $2.90 per share. The warrants became exercisable on December 24, 2003. The common shares issued and underlying the warrants were subsequently registered.

Stock Options

The Company has five stock 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"). The 1988 Stock Option Plan expired in 1998 and the 1992 Stock Option Plan and the nonstatutory 1992 Directors Stock Option Plan expired in 2002. During 2003, the 1998 and 1999 Stock Option Plans were replaced by the 2003 Equity Incentive Plan. Under the 2003 Equity Incentive Plan, stock awards may consist of stock options, stock appreciation rights, restricted stock awards, performance awards, and performance share awards. Stock awards may be made to directors, key employees, consultants, and non−employee directors of the Company. Stock options granted under these plans must be granted at prices no less than 100% of the market value on the date of grant. Only stock options have been granted under these plans. Generally, stock options become exercisable in installments over a minimum of four years, beginning one year after the date of grant, and expire not more than ten years from the date of grant, with the exception of 10% or greater stockholders which may have options granted at prices no less than the market value on the date of grant, and expire not more than five years from the date of grant. The original grant provisions for 2,000,000 options issued during 2003 allowed for accelerated vesting if certain performance criteria were met during 2003. In January 2004, the Company's Board of Directors determined that the performance criteria were met and 50% of these options vested on January 1, 2004 and 50% vested on January 1, 2005.

At the Company's 2005 Annual Meeting, the stockholders approved an increase in the total shares available for grants under the 2003 Equity Plan from 6,000,000 shares of common stock to 12,000,000 shares of common stock. The stockholders also approved a corresponding increase in the related sublimits under the plan.

During 2005, the Company's President and Chief Executive Officer, as well as another board member, retired. In connection with these retirements, the Company modified the terms of all the stock options held by these individuals to fully vest them and to extend the term until the earlier of the fifth anniversary of the retirement or the normal expiration date. Since these options had no intrinsic value at the date of modification, the modifications did not impact the Company's statement of operations.

In 2005, the Compensation Committee of the Board of Directors made grants of performance based stock options totaling 408,157 to the Company's officers and certain managers. The Compensation Committee determined that the financial performance criteria for these options was not met and therefore these options were cancelled.

On December 1, 2005, the Compensation Committee of the Company's Board of Directors approved the accelerated vesting of all time−vested outstanding out−of−the−money stock options held by current employees or consultants. For this purpose, the Compensation Committee defined "out−of−the−money options" as options having an exercise price equal to or greater than $0.58 per share (the market price on the date of the committee's decision to accelerate the vesting).

The Company accelerated the vesting of these options in anticipation of the impact of Statement of Financial Accounting Standard No. 123R ("SFAS 123R") Share−Based Payment. SFAS 123R will require the recognition of compensation expense related to unvested stock options for fiscal years beginning after December 15, 2005. The primary purpose of the accelerated vesting was to minimize the amount of compensation expense recognized in relation to the underwater options in future periods following the adoption by the Company of SFAS 123R. In addition, because these options have exercise prices in excess of current market values and are not fully achieving their original objectives of incentive compensation and employee retention, the Company believes that the acceleration has had a positive effect on employee morale and retention.

At December 31, 2005, 3,876,028 shares of common stock were available for future grant of options and 12,023,759 options had been granted but not yet exercised. Option activity during the three years ended December 31, 2005 was as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2002	**4,796,244**	**8.761**
Granted	3,116,007	2.661
Canceled	(310,243)	10.21
Exercised	(56,687)	2.703
Outstanding at December 31, 2003	**7,545,321**	**6.283**
Granted	3,126,159	3.552
Canceled	(1,114,455)	5.386
Exercised	(89,777)	2.780
Outstanding at December 31, 2004	**9,467,248**	**$ 5.521**
Granted	4,532,057	0.802
Canceled	(1,975,546)	3.718
Exercised	—	—
Outstanding at December 31, 2005	**12,023,759**	**$ 4.038**

The following table summarizes information concerning currently outstanding and exercisable stock options at December 31, 2005:

Range of Exercise Prices		Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable Number Exercisable	Exercisable Weighted Average Exercise Price
$0.58 −	**$ 0.69**	**2,563,000**	**9.419**	**$ 0.69**	**2,401,000**	**$ 0.69**
$0.70 −	**$ 1.04**	**3,255,138**	**8.077**	**$ 1.00**	**3,128,138**	**$ 1.00**
$1.05 −	**$ 3.05**	**2,030,431**	**6.495**	**$ 2.75**	**1,949,931**	**$ 2.80**
$3.06 −	**$ 5.60**	**1,509,123**	**4.688**	**$ 4.56**	**1,504,915**	**$ 4.56**
$5.61 −	**$49.38**	**2,666,067**	**5.018**	**$11.66**	**2,639,317**	**$11.71**
		12,023,759	6.992	$4.038	11,623,301	$4.132

The number of options exercisable and weighted average exercise price at December 31, 2003 and 2004 totaled 3,268,894 and $8.120 and 5,001,189 and $6.202, respectively.

The Company has adopted the disclosure−only provisions of Statement of Financial Accounting Standards No. 123, ("SFAS 123"), "Accounting for Stock−Based Compensation." Accordingly, no compensation cost has been recognized for the stock−based compensation other than for non−employees.

The fair value of these options for purposes of the pro forma amounts in Note 2 was estimated at the date of grant using the Black−Scholes option−pricing model with the following weighted−average assumptions for the years ended December 31, 2003, 2004 and 2005, respectively: dividend yields of zero percent each year; expected volatilities of 65%, 65−112 % and 93.85−95%; risk−free interest rates of 3.46%, 3.44−3.99% and 4.28−4.62%; and expected life of 4.0, 4.0, and 4.0 years. All options granted during 2003, 2004 and 2005 were granted at the then fair market value of the Company's common stock. The weighted average fair value of options granted in 2003, 2004 and 2005 for which the exercise price equals the market price on the grant date was $1.37, $2.02 and $0.55**,** respectively.

Warrants

The following is a summary of outstanding warrants at December 31, 2005:

	Common Shares Total	Common Shares Currently Exercisable	Common Shares Price per Share	Expiration Date
Warrants and options related to issuance of common stock	3,424,658	—	$ 1.11	August 16, 2010
	397,857	397,857	5.50	March 10, 2007
	1,406,581	1,406,581	1.19	December 17, 2007*
	1,162,790	1,162,790	2.90	June 24, 2008*
Warrants related to April 2004 Bridge Loans	695,489	695,489	1.33	April 28, 2011* **
	100,000	100,000	1.85	April 28, 2011*
Warrants assumed in connection with the Conductus, Inc. acquisition	1,095,000	1,095,000	4.583	September 27, 2007
	6,000	6,000	31.25	September 1, 2007
Total	8,288,375	4,863,717		

* The terms of these warrants contain net exercise provisions, wherein instead of a cash exercise holders can elect to receive common stock equal to the difference between the exercise price and the average closing sale price for common shares over 10−30 days immediately preceding the exercise date.

** The terms of these warrants contain antidilution adjustment provisions.

No warrants were exercised during the year ended December 31, 2005.

During the year ended December 31, 2004 the following warrants were exercised:

	Warrants		Common Shares Issued	
	Warrants Exercised	Price per Share	For Cash	In Accordance With Net Exercise Provisions
Warrants related to bank borrowings	123,525	$3−3.25	—	71,312
Warrants related to issuance of common stock	42,857	5.50	42,857	—
Total	166,382		42,857	71,312

During the year ended December 31, 2003 the following warrants were exercised:

	Warrants		Common Shares Issued	
	Warrants Exercised	Price per Share	For Cash	In Accordance With Net Exercise Provisions
Warrants related to bank borrowings	94,340	$ 1.06	—	75,140
Warrants related to issuance of common stock	330,000	5.50	330,000	—
	3,867,659	1.19	1,254,500	2,613,159
	116,279	2.90	116,279	—
Total	4,408,278		1,700,779	2,688,299

Note 8 – Employee Savings Plan

In December 1989, the Board of Directors approved a 401(k) savings plan (the “401(k) Plan”) for the employees of the Company that became effective in 1990. Eligible employees may elect to make contributions under the terms of the 401(k) Plan; however, contributions by the Company are made at the discretion of management. The Company has made no contributions to the 401(k) Plan.

Note 9 – Commitments and Contingencies

Operating Leases

The Company leases the majority of its offices and production facilities under non−cancelable operating leases that expire at various times over the next six 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 the Company 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 the years ended December 31, 2003, 2004, and 2005, rent expense was $1,230,000, $1,262,000 and $1,158,000, respectively.

Capital Leases

The Company leases certain property and equipment under a capital lease arrangement that expires in 2007. The lease bears interest at 14.95%.

Patents and Licenses

The Company has 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 the Company fails to pay minimum annual royalties, these licenses may automatically be terminated**.** These royalty obligations terminate in 2009 to 2020. Royalty expenses totaled $572,000 in 2003, $429,000 in 2004 and $211,000 in 2005. Under the terms of certain royalty agreements, royalty payments made may be subject to audit. There have been no audits to date and the Company does 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:

Year ending December 31,	Licenses	Operating Leases	Capital Leases
2006	$ 170,000	$ 1,414,000	$ 22,000
2007	150,000	1,253,000	15,000
2008	150,000	1,290,000	—
2009	150,000	1,335,000	—
2010	150,000	1,382,000	—
Thereafter	1,350,000	1,308,000	—
Total payments	$2,120,000	$ 7,982,000	37,000
Less: amount representing interest			(4,000)
Present value of minimum lease			33,000
Less current portion			(19,000)
Long term portion			$ 14,000

In connection with the acquisition of Conductus, Inc. as of December 31, 2002 operating leases with remaining commitments totaling $2,044,000 and $1,758,000 have been abandoned or are considered unfavorable, respectively. A liability totaling $1,995,000 representing the present value of the minimum lease payments and executory costs was recorded at December 18, 2002 relating to the abandoned leases. A liability totaling $1,140,000 representing the present value of the difference between the fair market rental and lease commitment was recorded at December 31, 2002 relating to unfavorable leases. As discussed further in the Restructuring Expenses and Impairment Charges footnote, the Company completed closure of its Sunnyvale facility in 2004 and recognized a liability totaling $279,000 representing the present value of the remainder of the lease commitment. In connection with the closure of this facility, the remaining unfavorable lease commitment of $558,000 recorded in connection with the acquisition of Conductus, Inc. was transferred to lease abandonment costs. As of December 31, 2005 the remaining minimum lease commitments on these operating leases totaled $227,000 and is included in the above commitment table. At December 31, 2005, the present value of the remaining liability related to the abandoned leases totals $225,000. This amount is included in accrued liabilities.

Note 10 — Contractual Guarantees and Indemnities

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

Warranties

The Company establishes reserves for future product warranty costs that are expected to be incurred pursuant to specific warranty provisions with its customers. The Company's 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

The Company indemnifies certain customers and its contract manufacturers against liability arising from third−party claims of intellectual property rights infringement related to the Company's 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, the Company is unable to determine the maximum amount of losses that it could incur related to such indemnifications.

Director and Officer Indemnities and Contractual Guarantees

The Company has entered into indemnification agreements with its directors and executive officers, which require the Company to indemnify such individuals to the fullest extent permitted by Delaware law. The Company's 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, the Company is unable to determine the maximum amount of losses that it 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 the Company's business, financial condition or results of operations.

The Company has also entered into severance and change in control agreements with certain of its executives. These agreements provide for the payment of specific compensation benefits to such executives upon the termination of their employment with the Company.

General Contractual Indemnities/Products Liability

During the normal course of business, the Company enters into contracts with customers where it agreed to indemnify the other party for personal injury or property damage caused by the Company's products. The Company's 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, the Company is unable to determine the maximum amount of losses that it could incur relating to such indemnifications. Historically, any amounts payable pursuant to such guarantees have not had a material negative effect on the Company's business, financial condition or results of operations. The Company maintains general and product liability insurance as well as errors and omissions insurance which may provide a source of recovery to the Company in the event of an indemnification claim.

Short Term Borrowings

Advances under the agreement are collateralized by all the Company's assets. Under the terms of the agreement, the Company continues to service the sold receivables and is subject to recourse provisions. Under the terms of the agreement, if the bank determines that there is a material adverse change in the Company's 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, 2005.

Contractual Contingency

The Company has a contract to deliver several custom products to a government contractor. The Company is unable to manufacture the products for technical reasons. The Company has discussed the problem with the contractor and its government customer. They are considering the problem, and further discussions are expected. The Company does not believe that a loss, if any, is reasonably estimable at this time and therefore has not recorded any liability relating to this matter. The Company will periodically reassess its potential liability as additional information becomes available. If it later determines that a loss is probable and the amount reasonably estimable, the Company will record a liability for the potential loss. All costs have been expensed and no revenues recognized on this contract.

Note 11— Legal Proceedings

Shalvoy Litigation

Mr. Shalvoy, a director and stockholder, owed us a total of $820,244 of principal, plus accrued interest of more than $214,000, under two, full recourse promissory notes as of December 31, 2005. The notes are secured by 151,762 shares of the Company's common stock with a market value of approximately $65,000 as of December 31, 2005.

The Company acquired the notes in connection with the acquisition of Conductus, Inc. in December 2002. Conductus made these two loans to Mr. Shalvoy, its then President and Chief Executive Officer, prior to the acquisition. Mr. Shalvoy issued the notes to Conductus as payment for the purchase price on the exercise of stock options in December 2000. The first note was due on December 28, 2005 ($460,244 principal amount), and the second note is due on August 21, 2006 ($360,000 principal amount).

Mr. Shalvoy notified the Company in December 2005 of his intention not to repay either of the loans. Mr. Shalvoy alleges, among other things, that the Conductus board committed to forgive the loans should the stock purchase turn out to have negative financial consequences to him. Mr. Shalvoy had not previously disclosed this alleged agreement to the Company, and the Company has not found (and is not aware) of any documentation to support his allegation. The Company does not believe that any agreement to forgive the notes ever existed, and it believes that the notes are valid and binding debt obligations of Mr. Shalvoy. Consequently, the Company filed a lawsuit against Mr. Shalvoy on December 21, 2005 in the California Superior Court (Case No. 1186812) to collect payment in full of all principal and interest due under both notes.

Class Action Lawsuits

The Company and certain of its officers were named as a defendant in several substantially identical class action lawsuits filed in the Unites States District Court for the Central District of California in 2004. In February 2005 the Company settled with the lead plaintiffs appointed by the District Court to handle this matter. Under the terms of the settlement, the Company's insurers paid $4.0 million into a settlement fund, and the Companypaid $50,000 of the costs of providing notice of the settlement to settlement class members. The Company recorded a liability in its December 31, 2004 consolidated financials statements for the proposed amount, and therefore receovery from the insurance carrier was probable, a receivable was also rfecorded for that amount. These amounts were paid into the settlement fund in April 2005.

Routine Litigation

The Company is also involved in routine litigation arising in the ordinary course of its business, and, while the results of the proceedings cannot be predicted with certainty, the Company believes that the final outcome of such matters will not have a material adverse effect on the financial position, operating results or cash flows of the Company.

Note 12— Earnings Per Share

The computation of per share amounts for 2003, 2004 and 2005 is based on the average number of common shares outstanding for the period. Options and warrants to purchase 14,238,854, 15,559,760 and 20,312,134 shares of common stock during 2003, 2004, and 2005 respectively, were not considered in the computation of diluted earnings per share because their inclusion would have been antidilutive.

Note 13— Restructuring Expenses and Impairment Charges

During 2004, the Company implemented several restructuring programs to streamline its operations and reduce its cost structure. The Company recorded cash and non−cash restructuring charges of $3.6 million for these activities. The Company consolidated its Sunnyvale operations into its Santa Barbara facility and reduced its workforce. The workforce reduction included reductions associated with the Sunnyvale facilities consolidation, as well as other strategic reductions in the organization. In addition, as part of the consolidation the Company accelerated the implementation of a new, lower cost wafer deposition process called Reactive Co−Evaporation.

In connection with the Company's 2005 annual planning process performed in the fourth quarter of 2004, the Company concluded that it would no longer use its thallium high temperature superconducting related technology beyond 2005 because alternative technologies were determined to be more cost effective and the Company decided it no longer wanted to support two HTS material technologies. As a result, the Company recorded non−cash charges of $715,000 primarily relating to the write−off of thallium related manufacturing equipment, patents and licenses since they will not be recovered from future cash flows. Also, during the Company's annual planning process the Company concluded that it would no longer continue to develop or maintain and would abandon certain other non−core business patents and patents no longer considered blocking in its business and certain purchased technology. As a result of the abandonment of the purchased technology and patents, the Company recorded non−cash charges of $842,000 during the fourth quarter of 2004 relating to the write−off of these patents and purchased technology since they will not be recovered from future cash flows.

During the first quarter of 2005, the Company implemented another restructuring program and reduced its workforce by another 27 positions and vacated a portion of its leased facility in Santa Barbara.

As discussed in Notes Receivable from Stockholder the Company recorded an impairment charge of $969,000 related to these notes in the fourth quarter of 2005. The impairment charge is included in Restructuring Expenses and Impairment Charges.

The following summarizes the restructuring and impairment charges for the years ended December 31, 2004 and 2005:

	For the Year Ended December 31,					
	Restructuring Charges for 2004	Impairment Charges for 2004	Total for 2004	Restructuring Charges for 2005	Impairment Charges for 2005	Total for 2005
Severance costs	$ 826,000	$ —	$ 826,000	$ 178,000	$ —	$ 178,000
Fixed assets write offs	803,000	403,000	1,206,000	137,000		137,000
Patents, licenses and purchased technology write−off	1,051,000	1,171,000	2,222,000	—	—	—
Lease abandonment costs	279,000	—	279,000	—	—	—
Facility consolidation costs	268,000	—	268,000	6,000	—	6,000
Employee relocation cost	382,000	—	382,000	16,000	—	16,000
Impairment charge for notes receivable from shareholder and board member	—	—	—	—	969,000	969,000
Total	$3,609,000	$1,574,000	$5,183,000	337,000	969,000	1,306,000
Fixed Asset write off and severance costs included in cost of goods sold	669,000	386,000	1,055,000	(109,000)	—	(109,000)
Expense included in operating expenses	$2,940,000	$1,188,000	$4,128,000	$ 228,000	$ 969,000	$1,197,000

Note 14— Details of Certain Financial Statement Components and Supplemental Disclosures of Cash Flow Information and Non−Cash Activities

Balance Sheet Data:

	December 31, 2004	December 31, 2005
Accounts receivable:		
Accounts receivable−trade	$ 1,043,000	$ 1,930,000
U.S. government accounts receivable−billed	468,000	311,000
Less: allowance for doubtful accounts	(77,000)	(75,000)
	$ 1,434,000	**$ 2,166,000**

	December 31, 2004	December 31, 2005
Inventories:		
Raw materials	$ 3,954,000	$ 3,328,000
Work−in−process	3,441,000	2,384,000
Finished goods	7,334,000	2,861,000
Less inventory reserves	(5,402,000)	(3,209,000)
	$ 9,327,000	**$ 5,364,000**

	December 31, 2004	December 31, 2005
Property and Equipment:		
Equipment	$ 18,240,000	$ 18,000,000
Leasehold improvements	6,801,000	6,647,000
Furniture and fixtures	451,000	451,000
	25,492,000	25,098,000
Less: accumulated depreciation and amortization	(15,189,000)	(17,295,000)
	$ 10,303,000	**$ 7,803,000**

At December 31, 2004 and December 31, 2005, equipment includes $237,000 of assets financed under capital lease arrangements, net of $163,000 and $210,000 of accumulated amortization, respectively. Depreciation expense amounted to $2,413,000, $2,744,000 and $2,548,000, respectively, in 2003, 2004 and 2005. In connection with a restructuring of the Company’s operations and other abandonment’s $3,916,000 of property and equipment cost and $2,617,000 of related accumulated depreciation was written off in the year ended December 31, 2004. Depreciation expense is expected to total $2.3 million in 2006 and $2.0 million, $1.4 million, $1.0 million and $700,000 in the years 2007, 2008, 2009 and 2010, respectively.

	December 31, 2004	December 31, 2005
Patents and Licenses:		
Patents pending	$ 433,000	$ 435,000
Patents issued	899,000	875,000
Less accumulated amortization	(203,000)	(230,000)
Net patents issued	696,000	645,000
Licenses	563,000	563,000
Less accumulated amortization	(33,000)	(66,000)
Net licenses	530,000	497,000
Purchased technology	1,706,000	1,706,000
Less accumulated amortization	(532,000)	(769,000)
Net purchased technology	1,174,000	937,000
	$ 2,833,000	**$ 2,514,000**

Amortization expense related to these items totaled $805,000, $719,000 and $329,000, respectively in 2003, 2004 and 2005. In connection with a restructuring of the Company's operations and abandonment's, $1,212,000 of patent cost and $236,000 of related accumulated amortization, $2,775,000 of license cost and $2,552,000 of related accumulated amortization, and $1,494,000 of purchased technology cost and $333,000 of related accumulated amortization, was written off in the year ended December 31, 2004. Amortization expenses related to these items are expected to total $340,000 in 2006 and approximately $350,000 in each of the years 2007, 2008 and 2009 and $119,000 in 2010.

	December 31, 2004	December 31, 2005
Accrued Expenses and Other Long Term Liabilities:		
Salaries payable	$ 438,000	$ 365,000
Compensated absences	552,000	423,000
Compensation related	295,000	253,000
Warranty reserve	419,000	491,000
Lease abandonment costs	1,336,000	225,000
Product line exit costs	885,000	402,000
Severance costs	36,000	32,000
Deferred rent	337,000	378,000
Offering expenses	792,000	—
Other	264,000	150,000
	5,354,000	**2,719,000**
Less current portion	**(4,601,000)**	**(1,998,000)**
Long term portion	**$ 753,000**	**$ 721,000**

	For the year ended, December 31, 2004	December 31, 2005
Warranty Reserve Activity:		
Beginning balance	**$ 494,000**	**$ 419,000**
Additions	157,000	204,000
Deductions	(159,000)	(273,000)
Change in estimate relating to previous warranty accruals	(73,000)	141,000
Ending balance	**$ 419,000**	**$ 491,000**
Unfavorable Lease Costs:		
Beginning balance	$ 823,000	$ —
Additions	—	—
Deductions	(265,000)	—
Transfer to lease abandonment costs	(558,000)	—
Ending balance	$ —	$ —
Lease Abandonment Costs:		
Beginning balance	**$1,329,000**	**$ 1,336,000**
Additions	279,000	—
Transfers from unfavorable lease costs	558,000	—
Deductions	(830,000)	(1,111,000)
Ending balance	**$1,336,000**	**$ 225,000**

	For the year ended, December 31, 2004	December 31, 2005
Product Line Exit Costs:		
Beginning balance	$ 913,000	$ 885,000
Additions	—	—
Deductions	(73,000)	(483,000)
Change in estimate relating to previous exit costs accrual	45,000	—
Ending balance	$ 885,000	$ 402,000
Severance Costs:		
Beginning balance	$ 285,000	$ 36,000
Additions	826,000	218,000
Deductions	(1,075,000)	(222,000)
Ending balance	$ 36,000	$ 32,000

Supplemental Cash Flow Information:

	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2005
Cash paid for interest	$ 471,000	$ 443,000	$ 116,000
Non−cash investing and financing activities:			
Unpaid offering expenses	—	792,000	—
Insurance settlement receivable	—	4,000,000	4,000,000
Legal settlement liability	—	4,000,000	4,000,000

Note 15– Subsequent Event – Unaudited

On March 2, 2006, the Company announced board approval of a one (1) for ten (10) reverse stock split. The reverse stock split will be effective at the open of business on March 13, 2006. The Company will have approximately 12.5 million shares outstanding after the split and will be accounted for by the transfer of approximately $113,000 from common stock par value to capital in excess of par value at December 31, 2005. Pro forma earnings per share amounts on a post−split basis for the years ended December 31, 2005, 2004 and 2003 would be as follows:

Year ended December 31,	2003	2004	2005
Basic and diluted loss per common share			
As reported	($0.18)	($0.37)	($0.12)
Proforma	($1.80)	($3.70)	($1.20)

Information presented in the Consolidated Financial Statements, related notes and Five Year Summary of Selected Financial Data has not been restated to reflect the one−for−ten reverse stock split.

Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2005				
Net revenues	$ 4,354,000	$ 8,553,000	$ 3,917,000	$ 7,385,000
Loss from operations (1)(2)(3)	(5,555,000)	(2,065,000)	(3,696,000)	(3,123,000)
Net loss	(5,537,000)	$ (2,046,000)	(3,623,000)	(3,007,000)
Basic and diluted loss per common share	$ (0.05)	$ (0.02)	$ (0.03)	$ (0.02)
Weighted average number of shares outstanding	107,711,026	107,711,026	116,554,922	124,834,314
2004				
Net revenues	$ 5,444,000	$ 6,312,000	$ 7,299,000	$ 3,949,000
Loss from operations (4)(5)	(5,807,000)	(7,874,000)	(5,138,000)	(11,278,000)
Net loss	(5,910,000)	$ (8,884,000)	(5,155,000)	(11,268,000)
Basic and diluted loss per common share	$ (0.09)	$ (0.11)	$ (0.06)	$ (0.11)
Weighted average number of shares outstanding	69,042,053	78,296,844	92,103,424	98,177,693

(1) Includes restructuring expense of $133,000, $204,000, none and none, respectively.

(2) Includes increased reserve for inventory obsolescence of $90,000, $90,000, $432,000 and $372,000, respectively.

(3) Includes sale of previously written−off inventory of none, none, $319,000, and $806,000, respectively.

(4) Includes restructuring expense and impairment charges of none, $2,513,000, $785,000 and $1,885,000, respectively.

(5) Includes increased reserve for inventory obsolescence of $88,000, $90,000, $440,000 and $4,218,000, respectively.

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
Year Ended December 31, 2005					
Allowance for Uncollectible Accounts	$ 77,000	$ —	$ —	$ (2,000)	$ 75,000
Impairment for Notes Receivable from Stockholder	—	969,000	—	—	969,000
Reserve for Inventory Obsolescence	5,402,000	984,000	—	(3,177,000)	3,209,000
Reserve for Warranty	419,000	204,000	—	(132,000)	491,000
Deferred Tax Asset Valuation Allowance	106,629,000	(330,000)	—	—	106,299,000
Year Ended December 31, 2004					
Allowance for Uncollectible Accounts	64,000	13,000	—	—	77,000
Reserve for Inventory Obsolescence	803,000	4,836,000	—	(237,000)	5,402,000
Reserve for Warranty	494,000	84,000	—	(159,000)	419,000
Deferred Tax Asset Valuation Allowance	94,576,000	12,053,000	—	—	106,629,000
Year Ended December 31, 2003					
Allowance for Uncollectible Accounts	58,000	12,000	—	(6,000)	64,000
Reserve for Inventory Obsolescence	650,000	719,000	—	(566,000)	803,000
Reserve for Warranty	351,000	261,000	—	(118,000)	494,000
Deferred Tax Asset Valuation Allowance	76,358,000	18,218,000	—	—	94,576,000

EXHIBIT 10.11(b)

AMENDMENT NO. 1
TO
CHANGE IN CONTROL AGREEMENT

This AMENDMENT NO. 1 TO CHANGE IN CONTROL AGREEMENT (the "Amendment)" is entered into as of May 24, 2005, by and between _______________, an individual (the "Executive"), and Superconductor Technologies Inc., a Delaware corporation (the "Company"), with reference to the following facts:

A. The Company and Executive entered into a Change in Control Agreement dated as of March 28, 2003 (the "Agreement").

B. The parties wish to revise the terms and conditions of the Agreement to change the selection of the Auditors (as defined therein) who perform certain tax calculations from its regular outside auditor to a third party auditor due to heightened auditor independence requirements under the Sarbanes−Oxley Act of 2002 and related rules adopted by SEC and PCAOB.

NOW, THEREFORE, based on the above premises and for good and valuable consideration, the parties agree as follows:

1. Identity of Auditors. The Auditors in the Agreement shall be Deloitte & Touche LLP or another independent auditor selected by the Company if Deloitte & Touche LLP is not available. Accordingly, the first sentence of Section 3(b) of the Agreement is hereby amended and restated as follows to effect such change:

> All mathematical determinations and all determinations of whether any of the Total Payments are "parachute payments" (within the meaning of section 280G of the Code) that are required to be made under this Section 3, shall be made by Deloitte & Touche LLP or another independent auditor selected by the Company if Deloitte & Touche is not available (the "Auditors")", who shall provide their determination (the "Determination"), together with detailed supporting calculations regarding the amount of any relevant matters, both to the Company and to the Executive within seven (7) business days of the Executive's termination date, if applicable, or such earlier time as is requested by the Company or by the Executive.

2. General. Capitalized terms not defined in this Amendment shall have the meaning set forth in the Agreement. This Amendment and the Agreement constitute the parties' entire agreement with respect to the subject matter hereof and supersede all agreements, representations, warranties, statements, promises and understandings, whether oral or written, with respect to the subject matter hereof. This Agreement may not be amended, altered or modified except by a writing signed by the parties. Except as expressly modified herein, the Agreement shall remain in full force and effect, and to the extent reasonably applicable, the provisions of Section 5 (Miscellaneous) of such agreement are hereby incorporated herein and made a part hereof. This Amendment may be executed in counterparts and by facsimile.

[NEXT PAGE IS SIGNATURE PAGE]

Signature Page to Amendment No. 1 To Change In Control Agreement

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, as of the day and year first above written.

EXECUTIVE

____

COMPANY
Superconductor Technologies Inc.

____
By: Jeffrey A. Quiram, President and CEO

EXHIBIT 10.24

Superconductor Technologies Inc.

INDEMNIFICATION AGREEMENT

This Indemnification Agreement ("Agreement") is effective as of this ______ day of _______________, 200___, by and between Superconductor Technologies Inc., a Delaware corporation (the "Company"), and _______________ ("Indemnitee").

WHEREAS, the Company and Indemnitee recognize the continued difficulty in obtaining liability insurance for its directors, officers, employees, agents and fiduciaries, the significant increases in the cost of such insurance and the general reductions in the coverage of such insurance;

WHEREAS, the Company and Indemnitee further recognize the substantial increase in corporate litigation in general, subjecting directors, officers, employees, agents and fiduciaries to expensive litigation risks at the same time as the availability and coverage of liability insurance has been severely limited;

WHEREAS, Indemnitee does not regard the current protection available as adequate under the present circumstances, and the Indemnitee and other directors, officers, employees, agents and fiduciaries of the Company may not be willing to continue to serve in such capacities without additional protection; and

WHEREAS, the Company desires to attract and retain the services of highly qualified individuals, such as Indemnitee, to serve the Company and, in part, in order to induce Indemnitee to continue to provide services to the Company, wishes to provide for the indemnification and advancing of expenses to Indemnitee to the maximum extent permitted by law.

NOW, THEREFORE, the Company and Indemnitee hereby agree as follows:

1. Indemnification.

(a) Indemnification of Expenses. The Company shall indemnify Indemnitee to the fullest extent permitted by law if Indemnitee was or is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, any threatened, pending or completed action, suit, proceeding or alternative dispute resolution mechanism, or any hearing, inquiry or investigation that Indemnitee in good faith believes might lead to the institution of any such action, suit, proceeding or alternative dispute resolution mechanism, whether civil, criminal, administrative, investigative or other (hereinafter a "Claim") by reason of (or arising in part out of) any event or occurrence related to the fact that Indemnitee is or was a director, officer, employee, agent or fiduciary of the Company; or any subsidiary of the Company, or is or was serving at the request of the Company as a director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action or inaction on the part of Indemnitee while serving in such capacity (hereinafter an "Indemnifiable Event") against any and all expenses (including attorneys' fees and all other costs, expenses and obligations incurred in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in, any such action, suit, proceeding, alternative dispute resolution mechanism, hearing, inquiry or investigation), judgments, fines, penalties and amounts paid in settlement (if such settlement is approved in advance by the Company, which approval shall not be unreasonably withheld) of such Claim and any federal, state, local or foreign taxes imposed on the Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement (collectively, hereinafter "Expenses"), including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses. Such payment of Expenses shall be made by the Company as soon as practicable but in any event no later than five days after written demand by Indemnitee therefor is presented to the Company.

(b) Reviewing Party. Notwithstanding the foregoing, (i) the obligations of the Company under Section 1(a) shall be subject to the condition that the Reviewing Party (as described in Section 10(e) hereof) shall not have determined (in a written opinion, in any case in which the Independent Legal Counsel referred to in Section 1(c) hereof is involved) that Indemnitee would not be permitted to be indemnified under applicable law, and (ii) the obligation of the Company to make an advance payment of Expenses to Indemnitee pursuant to Section 2(a) (an "Expense Advance") shall be subject to the condition that, if, when and to the extent that the Reviewing Party determines that Indemnitee would not be permitted to be so indemnified under applicable law, the Company shall be entitled to be reimbursed by Indemnitee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid; provided, however, that if Indemnitee has commenced or thereafter commences legal proceedings in a court of competent jurisdiction to secure a determination that Indemnitee should be indemnified under applicable law, any determination made by the Reviewing Party that Indemnitee would not be permitted to be indemnified under applicable law shall not be binding and Indemnitee shall not be required to reimburse the Company for any Expense Advance until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed). Indemnitee's obligation to reimburse the Company for any Expense Advance shall be unsecured and no interest shall be charged thereon. If there has not been a Change in Control (as defined in Section 10(c) hereof), the Reviewing Party shall be selected by the Board of Directors, and if there has been such a Change in Control (other than a Change in Control which has been approved by a majority of the Company's Board of Directors who were directors immediately prior to such Change in Control), the Reviewing Party shall be the Independent Legal Counsel referred to in Section 1(c) hereof. If there has been no determination by the Reviewing Party or if the Reviewing Party determines that Indemnitee substantively would not be permitted to be indemnified in whole or in part under applicable law, Indemnitee shall have the right to commence litigation seeking an initial determination by the court or challenging any such determination by the Reviewing Party or any aspect thereof, including the legal or factual bases therefor, and the Company hereby consents to service of process and to appear in any such proceeding. Any determination by the Reviewing Party otherwise shall be conclusive and binding on the Company and Indemnitee.

(c) Change in Control. The Company agrees that if there is a Change in Control of the Company (other than a Change in Control which has been approved by a majority of the Company's Board of Directors who were directors immediately prior to such Change in Control) then with respect to all matters thereafter arising concerning the rights of Indemnitee to payments of Expenses and Expense Advances under this Agreement or any other agreement or under the Company's Certificate of Incorporation or Bylaws as now or hereafter in effect, Independent Legal Counsel (as defined in Section 10(d) hereof) shall be selected by the Indemnitee and approved by the Company (which approval shall not be unreasonably withheld). Such counsel, among other things, shall render its written opinion to the Company and Indemnitee as to whether and to what extent Indemnitee would have permitted to be indemnified under applicable law and the Company agrees to abide by such opinion. The Company agrees to pay the reasonable fees of the Independent Legal Counsel referred to above and to fully indemnify such counsel against any and all expenses (including attorneys' fees), claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(d) Mandatory Payment of Expenses. Notwithstanding any other provision of this Agreement other than Section 9 hereof, to the extent that Indemnitee has been successful on the merits or otherwise, including, without limitation, the dismissal of an action without prejudice, in defense of any action, suit, proceeding, inquiry or investigation referred to in Section (1) (a) hereof or in the defense of any claim, issue or matter therein, Indemnitee shall be indemnified against all Expenses incurred by the Indemnitee in connection therewith.

2. Expenses; Indemnification Procedure.

(a) Advancement of Expenses. The Company shall advance all Expenses incurred by the Indemnitee. The advances to be made hereunder shall be paid by the Company to Indemnitee as soon as practicable but in any event no later than five days after written demand by Indemnitee therefor to the Company.

(b) Notice/Cooperation by Indemnitee. Indemnitee shall, as a condition precedent to Indemnitee's right to be indemnified under this Agreement, give the Company notice in writing as soon as practicable of any claim made against Indemnitee for which indemnification will or could be sought under this Agreement. Notice to the Company shall be directed to the Chief Executive Officer of the Company at the address shown on the signature page of this Agreement (or such other address as the Company shall designate in writing to the Indemnitee). In addition, Indemnitee shall give the Company such information and cooperation as it may reasonably require and as shall be within Indemnitee's power.

(c) No Presumptions; Burden of Proof. For purposes of this Agreement, the termination of any Claim by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create of presumption that Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law. In addition, neither the failure of the Reviewing Party to have made a determination as to whether Indemnitee has met any particular standard of conduct or had any particular belief, nor an actual determination by the Reviewing Party that Indemnitee has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnitee to secure a judicial determination that Indemnitee should be indemnified under applicable law, shall be a defense to Indemnitee's claim or create a presumption that Indemnitee has not met any particular standard of conduct or did not have any particular belief. In connection with any determination by the Reviewing Party or otherwise as to whether the Indemnitee is entitled to be indemnified hereunder, the burden of proof shall be on the Company to establish that Indemnitee is not so entitled.

(d) Notice to Insurers. If, at the time of the receipt by the Company of a notice of a Claim pursuant to Section 2(b) hereof, the Company has liability insurance in effect which may cover such Claim, the Company shall give prompt notice of the commencement of such Claim to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such action, suit, proceeding, inquiry or investigation in accordance with the terms of such policies.

(e) Selection of Counsel. In the event the Company shall be obligated hereunder to pay the Expenses of any Claim, the Company, if appropriate, shall be entitled to assume the defense of such Claim with counsel approved by Indemnitee, upon the delivery to

Indemnitee of written notice of its election so to do. After delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same Claim; provided that, (i) Indemnitee shall have the right to employ Indemnitee's counsel in any such Claim at Indemnitee's expense and (ii) if (A) the employment of counsel by Indemnitee has been previously authorized by the Company, (B) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of any such defense, or (C) the Company shall not continue to retain such counsel to defend such Claim, then the fees and expenses of Indemnitee's counsel shall be at the expense of the Company.

3. Additional Indemnification Rights; Nonexclusivity.

(a) Scope. The Company hereby agrees to indemnify the Indemnitee to the fullest extent permitted by law, notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Certificate of Incorporation, the Company's Bylaws or by statute. In the event of any change after the date of this Agreement in any applicable law, statute or rule which expands the right of a Delaware corporation to indemnify a member of its Board of Directors or an officer, employee, agent or fiduciary, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits afforded by such change. In the event of any change in any applicable law, statute or rule which narrows the right of a Delaware corporation to indemnify a member of its Board of Directors or an officer, employee, agent or fiduciary, such change, to the extent not otherwise required by such law, statute or rule to be applied to this Agreement, shall have no effect on this Agreement or the parties' rights and obligations hereunder except as set forth in Section 8(a) hereof.

(b) Nonexclusivity. The indemnification provided by this Agreement shall be in addition to any rights to which Indemnitee may be entitled under the Company's Certificate of Incorporation, its Bylaws, any agreement, any vote of stockholders or disinterested directors, the General Corporation Law of the State of Delaware, or otherwise. The indemnification provided under this Agreement shall continue as to Indemnitee for any action taken or not taken while serving in an indemnified capacity even though Indemnitee may have ceased to serve in such capacity.

4. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment in connection with any Claim made against Indemnitee to the extent Indemnitee has otherwise actually received payment (under any insurance policy, Certificate of Incorporation, Bylaw or otherwise) of the amounts otherwise indemnifiable hereunder.

5. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of Expenses incurred in connection with any Claim, but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion of such Expenses to which Indemnitee is entitled.

6. Mutual Acknowledgement. Both the Company and Indemnitee acknowledge that in certain instances, Federal law or applicable public policy may prohibit the Company from indemnifying its directors, officers, employees, agents or fiduciaries under this Agreement or otherwise. Indemnitee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the Securities and Exchange Commission to

submit the question of indemnification to a court in certain circumstances for a determination of the Company's right under public policy to indemnify Indemnitee.

7. Liability Insurance. To the extent the Company maintains liability insurance applicable to directors, officers, employees, agents or fiduciaries, Indemnitee shall be covered by such policies in such a manner as to provide Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company's directors, if Indemnitee is a director; or of the Company's officers, if Indemnitee is not a director of the Company but is an officer; or of the Company's key employees, agents or fiduciaries, if Indemnitee is not an officer or director but is a key employee, agent or fiduciary.

8. Exceptions. Any other provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement:

(a) Excluded Action or Omissions. To indemnify Indemnitee for acts, omissions or transactions from which Indemnitee may not be relieved of liability under applicable law.

(b) Claims Initiated by Indemnitee. To indemnify or advance expenses to Indemnitee with respect to Claims initiated or brought voluntarily by Indemnitee and not by way of defense, except (i) with respect to actions or proceedings brought to establish or enforce a right to indemnification under this Agreement or any other agreement or insurance policy or under the Company's Certificate of Incorporation or Bylaws now or hereafter in effect relating to Claims for Indemnifiable Events, (ii) in specific cases if the Board of Directors has approved the initiation or bringing of such Claim, or (iii) as otherwise as required under Section 145 of the Delaware General Corporation Law, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advance expense payment or insurance recovery, as the case may be.

(c) Lack of Good Faith. To indemnify Indemnitee for any expenses incurred by the Indemnitee with respect to any proceeding instituted by Indemnitee to enforce or interpret this Agreement, if a court of competent jurisdiction determines that each of the material assertions made by the Indemnitee in such proceeding was not made in good faith or was frivolous; or

(d) Claims Under Section 16(b). To indemnify Indemnitee for expenses and the payment of profits arising from the purchase and sale by Indemnitee of securities in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended, or any similar successor statute.

9. Period of Limitations. No legal action shall be brought and no cause of action shall be asserted by or in the right of the Company against Indemnitee, Indemnitee's estate, spouse, heirs, executors or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, and any claim or cause of action of the Company shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two−year period; provided, however, that if any shorter period of limitations is otherwise applicable to any such cause of action, such shorter period shall govern.

10. Construction of Certain Phrases.

(a) For purposes of this Agreement, references to the "Company" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees, agents or fiduciaries, so that if Indemnitee is or was a director, officer, employee, agent or fiduciary of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, employee benefit plan, trust or other enterprise. Indemnitee shall stand in the same position under the provisions of this Agreement with respect to the resulting or surviving corporation as Indemnitee would have with respect to such constituent corporation if its separate existence had continued.

(b) For purposes of this Agreement, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on Indemnitee with respect to an employee benefit plan; and references to "serving at the request of the Company" shall include any service as a director, officer, employee, agent or fiduciary of the Company which imposes duties on, or involves services by, such director, officer, employee, agent or fiduciary with respect to an employee benefit plan, its participants or its beneficiaries; and if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan, Indemnitee shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this Agreement.

(c) For purposes of this Agreement a "Change in Control" shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, (A) who is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 10% or more of the combined voting power of the Company's then outstanding Voting Securities, increases his beneficial ownership of such securities by 5% or more over the percentage so owned by such person, or (B) becomes the "beneficial owner" (as defined in Rule 13d−3 under said Act), directly or indirectly, of securities of the Company representing more than 20% of the total voting power represented by the Company's then outstanding Voting Securities, (ii) during any period of two consecutive years, the individuals who at the beginning of such period constitute the Board of Directors of the Company and any new director whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two−thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof, or (iii) 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) at least 80% 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 a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of (in one transaction or a series of transactions) all of substantially all of the Company's assets.

(d) For purposes of this Agreement, "Independent Legal Counsel" shall mean an attorney or firm of attorneys, selected in accordance with the provisions of Section 1(c) hereof, who shall not have otherwise performed services for the Company or Indemnitee within the last three years (other than with respect to matters concerning the rights of Indemnitee under this Agreement, or of other indemnitees under similar indemnity agreements.)

(e) For purposes of this Agreement, a “Reviewing Party” shall mean any appropriate person or body consisting of a member or members of the Company’s Board of Directors or any other person or body appointed by the Board of Directors who is not a party to the particular Claim for which Indemnitee is seeking indemnification, or Independent Legal Counsel.

(f) For purposes of this Agreement, “Voting Securities” shall mean any securities of the Company that vote generally in the election of directors.

11. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall constitute an original.

12. Binding Effect; Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, assigns, including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company, spouses, heirs, and personal and legal representatives. The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all, or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place. This Agreement shall continue in effect regardless of whether Indemnitee continues to serve as a director or officer of the Company or of any other enterprise at the Company’s request.

13. Attorneys’ Fees. In the event that any action is instituted by Indemnitee under this Agreement or under any liability insurance policies maintained by the Company to enforce or interpret any of the terms hereof or thereof, Indemnitee shall be entitled to be paid all Expenses incurred by Indemnitee with respect to such action, regardless of whether Indemnitee is ultimately successful in such action, and shall be entitled to the advancement of Expenses with respect to such action, unless as a part of such action a court of competent jurisdiction over such action determines that each of the material assertions made by Indemnitee as a basis for such action were not made in good faith or were frivolous. In the event of an action instituted by or in the name of the Company under this Agreement to enforce or interpret any of the terms of this Agreement, Indemnitee shall be entitled to be paid all Expenses incurred by Indemnitee in defense of such action (including costs and expenses incurred with respect to Indemnitee’s counterclaims and cross−claims made in such action), and shall be entitled to the advancement Expenses with respect to such action, unless as a part of such action a court having jurisdiction over such action determines that each of Indemnitee’s material defenses to such action were made in bad faith or were frivolous.

14. Notice. All notices, requests, demands and other communication under this Agreement shall be in writing and shall be deemed duly given (i) if delivered by hand and signed for by the party addressed, on the date of such delivery, or (ii) if mailed by domestic certified or registered mail with postage prepaid, on the third business day after the date postmarked. Addresses for notice to either party are as shown on the signature page of this Agreement, or as subsequently modified by written notice.

15. Consent to Jurisdiction. The Company and Indemnitee each hereby irrevocably consent to the jurisdiction of the courts of the State of Delaware for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be commenced, prosecuted and continued only in the Court of Chancery of the State of Delaware in and for New Castle County, which shall be the exclusive and only proper forum for adjudicating such a claim.

16. Severability. The provisions of this Agreement shall be severable in the event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) are held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable, and the remaining provisions shall remain enforceable to the fullest extent permitted by law. Furthermore, to the fullest extent possible, the provisions of this Agreement (including, without limitations, each portion of this Agreement containing any provision held to be invalid, void or otherwise unenforceable, that is not itself invalid, void or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

17. Choice of Law. This Agreement shall be governed by and its provisions construed and enforced in accordance with the laws of the State of Delaware, as applied to contracts between Delaware residents, entered into and to be performed entirely within the State of Delaware, without regard to the conflict of laws principles thereof.

18. Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

19. Amendment and Termination. No amendment, modification, termination or cancellation of this Agreement shall be effective unless it is in writing signed by both the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

20. Integration and Entire Agreement. This Agreement sets forth the entire understanding between the parties hereto and supercedes and merges all previous written and oral negotiations, commitments, understandings and agreements relating to the subject matter hereof between the parties hereto.

21. No Construction as Employment Agreement. Nothing contained in this Agreement shall be construed as giving Indemnitee any right to be retained in the employ of the Company or any of its subsidiaries.

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

SUPERCONDUCTOR TECHNOLOGIES INC.

By: ______________________________

Title: ______________________________

AGREED TO AND ACCEPTED

INDEMNITEE:

____
(signature)

____
(name of Indemnitee)

____

____
(address)

EXHIBIT 10.25

Superconductor Technologies Inc.
Code of Business Conduct and Ethics

In the wake of several large corporate scandals and bankruptcies, the SEC and other governing bodies have implemented additional controls and procedures for publicly reporting companies. We have always prided ourselves on maintaining the highest ethical standards, and we have always had certain policies essential to maintaining our high standards. We believe that our directors, officers and employees are aware of our commitment to ethics, and that they have worked and will work hard to meet it. However, to formalize our commitment to certain critical policies cited by the SEC, our Board of Directors has adopted this Code of Business Conduct and Ethics. **This Code of Business Conduct and Ethics does not summarize all of our policies.** Our employees must also comply with our other policies set out in our Employee Handbook and elsewhere.

1. **Complying With Laws.** We should respect and comply with all applicable laws, rules and regulations in the conduct of our business. This includes the laws, rules and regulations of the U.S. and each foreign country, state, county, city and other jurisdiction in which we conduct business. This is true even if a supervisor or anyone in management has directed otherwise. **If you are ever unsure about the legal course of action, please immediately request assistance from your supervisor, our Chief Executive Officer, or our Senior VP & Chief Financial Officer.**

The laws with which we comply include “insider trading laws” relating to transactions in our stock. Some of our specific responsibilities are set out in our Statement of Company Policy on Insider Trading and Public Disclosure of Information. Generally, we are not permitted to buy, sell or otherwise trade in our securities without specific permission from our SEC compliance officer, and then only during specified “window” periods in the case of directors and senior executives. **Please carefully read our policies and procedures regarding insider trading in full and contact our Senior VP & Chief Financial Officer if you have questions about it.**

2. **Confidentiality**. **We must maintain the confidentiality of all sensitive information entrusted to us**, including all non−public information whose disclosure might be of use to our competitors, or harmful to us or our customers. Some of our specific responsibilities are set out in our Confidentiality and Non−Solicitation policy contained in our Employee Handbook. **Please carefully read our policies regarding Confidentiality and Non−Solicitation included in our Employee Handbook, and our Agreement Regarding Confidential and Proprietary Information and Trade Secrets in full and contact our Senior VP & Chief Financial Officer if you have questions about it**.

3. **Corrupt Practices.** In accordance with the U.S. Foreign Corrupt Practices Act and our policies, **we are strictly prohibited from giving anything of value, directly or indirectly, to foreign government officials or foreign political candidates in order to obtain or retain business**. In addition, we are strictly prohibited from giving U.S. government officials business gratuities or gifts. The U.S. government can and has imposed criminal sanctions on individuals and entities that have improperly given gifts to U.S. government personnel, and the promise, offer or delivery to an official or employee of the U.S. government of a gift or other gratuity would not only violate our policies, but might also be a criminal offense. **Please contact our Senior VP & Chief Financial Officer if you believe improper gifts have been, are being, or will be made by our employees or directors**.

4. **Fair Dealing.** We seek to outperform our competition fairly and honestly and seek competitive advantages through superior performance. **We do not use unethical or illegal business**

practices to compete. Stealing proprietary information, possessing trade secret information that was obtained without the owner's consent, or inducing such disclosures by past or present employees of other companies is prohibited. We endeavor to deal fairly with our customers, suppliers, competitors, officers and employees. We should never take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair dealing practice.

5. Public Company Reporting. As a public company, our filings with the SEC must be accurate and timely. Whether or not you are directly involved in that process, you have several responsibilities:

- Depending upon your position, you may be called upon to provide information to assure that our public reports are complete, fair and understandable. We expect you to take this responsibility very seriously and to provide prompt accurate answers to inquiries related to our public disclosure requirements.
- Our books, records, accounts and financial statements must be maintained in reasonable detail, must appropriately reflect our transactions and must conform both to applicable legal requirements and to the Company's system of internal controls. Unrecorded or "off the books" funds or assets should not be maintained unless permitted by applicable law or regulation. Additionally, records should always be retained or destroyed consistent with our past record retention practices.
- Our public reports should fairly and accurately reflect what is happening at our Company. If you believe they do not, you have a responsibility to bring your concerns to the attention of senior management or the board.

Because of the importance of this issue, the Audit Committee of our Board of Directors has adopted the following provision to its charter, which is binding on everyone at Superconductor:

> "Every employee of or consultant to the Company who has, or who hears expressed by another person, any concerns about the manner in which the Company's financial statements or public reports are prepared, the sufficiency of its internal financial controls, the honesty or competence of its financial management or independent auditors or any other matter within the purview of the Audit Committee is directed and strongly encouraged to report the matter promptly to any member of the Audit Committee. The Audit Committee will attempt to keep the name of the person reporting the potential issue confidential to the extent requested by that person and not inconsistent with the best interests of the Company. The Audit Committee will not tolerate retaliation against any person who reports potential issues to the Audit Committee in good faith."

Accordingly, if you have concerns regarding any accounting or auditing matters, you may (but are not required to) consult with your supervisor or any of our executive officers if you are comfortable doing so. But, unless the issues are fully resolved to your satisfaction, or if you are not comfortable discussing the matter with our management, **you are required to submit your concerns or complaints (anonymously, confidentially or otherwise) to the Audit Committee of our Board of Directors**. This is true even if your supervisor or anyone in management has directed you not to do so. You may direct your concerns to any member of the Audit Committee at a special, confidential telephone number contained in your employee handbook or to our outside legal counsel. The telephone numbers for the members of our Audit Committee and our outside legal counsel are listed in our directory. If you ask, we will keep your name confidential unless this would violate applicable law or our responsibilities to others.

6. **Conflicts Of Interest.** You should avoid conflicts of interest with the Company except under guidelines approved by our Board of Directors or a committee of our Board. Please refer to our policies and procedures regarding conflicts of interest and **if you become aware of a conflict of interest on the part of anyone at Superconductor, you must report it to your supervisor or directly to our Senior VP & Chief Financial Officer or the Audit Committee of our Board of Directors**.

   A “conflict of interest” exists whenever your private interests interfere or conflict in any way (or even appear to interfere or conflict) with our interests. A conflict of interest can arise when you take actions or have interests that may make it difficult to perform your work for us objectively and effectively. Conflicts of interest may also arise when you, or members of your family, receives improper personal benefits as a result of your position with us, regardless of from where those benefits are received.

   Specifically, it is a conflict of interest for you or a member of your immediate family to work simultaneously for one of our competitors, customers or suppliers, even as a consultant or board member, to receive any form of compensation (including loans or “gifts”) from any person with whom we are doing business or to own an undisclosed interest in any supplier to us (other than an interest of less than 1% in a public company). **If you or a member of your immediate family receives any payments from Superconductor or any person or entity connected or doing business with Superconductor, it must be disclosed and approved by Superconductor.** (This, of course, does not include salary and bonus payments made though our payroll, stock option grants under our employee stock option plans, or normal business expense reimbursements.)

   Similarly, you owe us a duty to advance our legitimate interests when the opportunity to do so arises. You are prohibited from (a) taking for yourself personally opportunities that properly belong to Superconductor or are discovered through the use of our property, information or your position with us; (b) using corporate property, information or position for personal gain; or (c) competing with us.

   Ordinarily, the best policy will be to avoid any direct or indirect business connection with our customers, suppliers or competitors, except on our behalf. However, regardless of how “natural” or “innocent” a conflict may seem, you must report it and can proceed only if the relationship is approved in writing by our Senior VP & Chief Financial Officer and the then current Chairman of our Audit Committee. **If you have any questions about whether a situation is a conflict of interest, you should raise the issue with your supervisor or directly with our Senior VP & Chief Financial Officer or the then current Chairman of our Audit Committee.**

7. **Reporting Any Illegal or Unethical Behavior.** The Company can be held criminally liable if one of its employees, directors or agents commits certain crimes. Accordingly, you must promptly report any knowledge or information about employment−related conduct by another employee, director or agent of the Company that you reasonably believe to be a crime, a material violation of law or regulation, a dishonest act (including misappropriation of funds or anything of

value from the Company or the improper recording of the Company's assets or liabilities), a breach of trust or any other conduct that might affect the reputation of the Company. You must report the relevant facts promptly to your supervisor. If the situation cannot be resolved, or if you feel uncomfortable using internal resources for reporting your concerns, you must report the matter to the Employee Hotline.

8. **Special Requirements for Officers and Directors.** Any consent or waiver with respect to this Code which involves an Officer or Director of the Company must be approved by a majority of disinterested directors on our Board of Directors or the Audit Committee of our Board of Directors.

9. **No Retaliation. We will not tolerate retaliation of any kind against any person who in good faith reports to us potential issues relating to violations of law or this Code.**

This Code only be amended, modified or waived by our Board of Directors or its authorized committee, subject to the disclosure and other provisions of the Securities Exchange Act of 1934 and the applicable rules of the NASDAQ.

If you are ever unsure about whether some action would be consistent with this Code of Business Conduct and Ethics, you should ask us. Similarly, any time you encounter a situation and you are unsure what to do, you agree to tell us and ask for help.

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

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, and 333−117107) of Superconductor Technologies Inc. of our report dated March 3, 2006 relating to the consolidated financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10−K.

/s/ PRICEWATERHOUSECOOPERS LLP

Los Angeles, California
March 7, 2006

EXHIBIT 31.1

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

I, Jeffrey A. Quiram, certify that:

1. I have reviewed this annual report on Form 10−K of Superconductor Technologies Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) 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;

   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;

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 7, 2006

/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, Martin S. McDermut, 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)) 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;
   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;
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 7, 2006

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

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 7, 2006

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

1. the accompanying Annual Report on Form 10−K of Superconductor Technologies for the annual period ended December 31, 2005 (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 7, 2006

I, Martin M. McDermut, Senior Vice President, Chief Financial Officer and Secretary of Superconductor Technologies Inc, herby certify that, to my knowledge, that:

1. the accompanying Annual Report on Form 10−K of Superconductor Technologies for the annual period ended December 31, 2005 (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/ Martin S. McDermut
Martin S. McDermut
Senior Vice President, Chief Financial Officer
and Secretary