FORM 10−K

SUPERCONDUCTOR TECHNOLOGIES INC − SCON

Filed: March 16, 2005 (period: December 31, 2004)

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

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10−K

(Mark One)

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

For the Year Ended December 31, 2004

OR

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

Commission File Number 0−21074

SUPERCONDUCTOR TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

Delaware	**77−0158076**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
460 Ward Drive, Santa Barbara, California	**93111−2310**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code:
(805) 690−4500
Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.001 par value per share

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 ☑ 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 an accelerated filer (as defined in Exchange Act Rule 12b−2). Yes ☑ or No ☐.

The aggregate market value of the common stock held by non−affiliates was $110.5 million as of July 2, 2004 (the last business day of our most recently completed second fiscal quarter). The closing price of the common stock on that date was $1.20 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 107,711,026 shares of common stock outstanding as of the close of business on February 28, 2005.

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 25, 2005.

SUPERCONDUCTOR TECHNOLOGIES INC.
FORM 10−K ANNUAL REPORT
Year Ended December 31, 2004

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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 *“Management’s Discussion and Analysis of Financial Condition and Results of Operations”* and *“Business — Additional Factors That May Affect Our Future Results.”* 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 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. Our solutions leverage our expertise in high−temperature superconducting (“HTS”) filters to “hear” wireless devices with the best possible clarity while rejecting interfering signals. We believe that this combination of interference rejection and receiver sensitivity is only possible using HTS technology. We sell our products directly to wireless carriers in the Americas, and we have plans to expand internationally. Our customers to date include ALLTEL, AT&T Wireless (now Cingular), Sprint, U.S. Cellular, and Verizon Wireless.

Industry Background. The ability to provide high quality service to customers is becoming increasingly difficult for wireless operators as the number of subscribers rises, minutes of use increase and the market for wireless data services expands. Wireless service providers in both rural and urban areas are encountering high levels of 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. In particular, CDMA operators, whose spectrum employs wide communications channels for data and voice transmission, are faced with less available spectrum capacity for voice services as higher−speed data services, such as EV−DO, are introduced.

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. Today’s restricted corporate budgets and tougher zoning laws make operators far less likely to have the option of simply deploying new base stations to achieve these performance goals.

Our Solution. We leverage our expertise in high−temperature superconducting technology to cost effectively deliver both 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 solutions consist of the following three product lines:

- *SuperLink Rx.* 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. To address this need, we offer the SuperLink Rx product line for the receiver front−end of base stations. These products combine specialized filters using HTS technology with a proprietary cryogenic cooler and a 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 Rx products thereby offer significant advantages over conventional filters and amplifiers.
- *AmpLink Rx.* The recently introduced AmpLink Rx is our lower−cost receiver front−end product designed specifically to address the sensitivity requirements of wireless base stations. The AmpLink Rx is a ground−mounted unit which includes a high−performance amplifier and up to six dual duplexers. The enhanced uplink provided by AmpLink Rx 1900 improves PCS network coverage immediately and avoids the installation and maintenance costs associated with tower mounted amplifiers. As

network interference increases, the AmpLink Rx 1900 is easily upgradable to include a SuperLink Rx front−end, which uses HTS technology to maintain the same sensitivity improvement while eliminating the effects of increasing interference.

- *SuperPlex.* SuperPlex, our antenna sharing solution, is a line of multiplexers that provides extremely low insertion loss and excellent cross−band isolation. Products in our SuperPlex line of 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. The SuperPlex product family offers network performance benefits synergistic with SuperLink Rx.

We began commercial production of the SuperFilter (the precursor to the SuperLink Rx) in 1997. Our initial commercial sales of our SuperLink products were to small rural providers who had the most immediate need for range extension and coverage enhancement. We sold our first systems in the fourth quarter of 1997. We sold 83 more systems in 1998, 123 systems in 1999, 393 systems in 2000, 438 systems in 2001, 927 systems in 2002, 1,884 systems in 2003 and 697 systems in 2004. In 2002, U.S. Cellular accounted for 8% of our net commercial revenues and ALLTEL for 84% of our net commercial revenues. In 2003, ALLTEL accounted for 70% of our net commercial revenues and Verizon Wireless accounted for 15% of our net commercial revenues. For the year ended December 31, 2004, ALLTEL accounted for 63% of our net commercial revenues and Verizon Wireless accounted for 24% of our net commercial revenues.

Our Strategy. Our objective is to provide a full range of performance improvement solutions to wireless carriers by offering our field−proven receive−chain HTS solutions, innovative duplexer designs for antenna sharing and network overlays, ground−based sensitivity improvement solutions, high−performance multiplexers and power amplifiers. 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. In our business model, we use government contracts as a source of funds for our commercial technology development. 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 acquired Conductus, Inc. on December 18, 2002. Conductus was a competing supplier of high−temperature superconducting technology for wireless networks. The acquisition of Conductus contributed $4.6 million to our government revenues in 2003. In the second quarter of 2004, we consolidated the Conductus operation into our Santa Barbara facilities.

Corporate Information. We were incorporated in Delaware in 1987. Our facilities and executive offices are located at 460 Ward Drive, Santa Barbara, California 93111, and our telephone number is (805) 690−4500. 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 SuperLink 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. They 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 Rx, AmpLink Rx and SuperPlex.

- *SuperLink Rx.* 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 Rx 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 Rx products thereby offer significant advantages over conventional filter and amplifier systems.
- *AmpLink Rx.* The recently introduced AmpLink Rx is our lower−cost receiver front−end product designed specifically to address the sensitivity requirements of wireless base stations. The AmpLink Rx is a ground−mounted unit which includes a high−performance amplifier and up to six dual duplexers. The enhanced uplink provided by AmpLink Rx 1900 improves PCS network coverage immediately and avoids the installation and maintenance costs associated with tower mounted amplifiers. As network interference increases, the AmpLink Rx 1900 is upgradable to include a SuperLink Rx front−end, hence maintaining the same sensitivity improvement while eliminating the effects of increasing interference.
- *SuperPlex.* SuperPlex, our antenna sharing solution, is a line of multiplexers that provides extremely low insertion loss and excellent cross−band isolation. Products in our SuperPlex line of high−performance multiplexers are designed to facilitate base station antenna sharing and reduce infrastructure costs. SuperPlex can be used in conjunction with AmpLink Rx 1900 and SuperLink Rx 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 products offer increased transmit power delivered to the base station antenna, higher sensitivity to subscriber handset signals, interference rejection and fast and cost−effective network overlays.

During 2004, we introduced a number of variations in the AmpLink Rx and SuperPlex product lines to enable STI to offer a complete solution of products for the EV−DO roll−out in the CDMA networks of our customers.

We introduced several new SuperLink solutions in 2003, including the SuperLink Rx 850, the most compact and lowest power cryogenic receiver front end (CRFE) in the industry, and the HTS−Ready^{tm} Duplexer HP, which delivers superior duplexing functionality in the 850 MHz cellular band and provides twice the amount of average power handling (1200 watts versus 600 watts) and four times as much peak power handling (40 kilowatts versus 10 kilowatts) as found in our standard HTS−Ready Duplexer 850. In August 2003, we introduced SuperLink Rx 1900, an integrated CRFE unit designed specifically for the PCS wireless market. SuperLink Rx 1900 is STI's first fully integrated system designed for outdoor use. The fully weatherized unit includes a SuperLink Rx front−end and up to six dual duplexers in an outdoor enclosure.

During 2002 and 2003, we were marketing a power amplifier product called the SuperLink Tx manufactured by another company. The SuperLink Tx was for wireless networks that suffer from insufficient transmit power on the downlink signal path. Our supplier for this product was acquired by a competitor of ours in November 2003. We evaluated alternative sources of power amplifiers for our customers and concluded that suitable power amplifiers are readily available from other vendors. Therefore, we have no plans to resume marketing any power amplifier products.

Net commercial product revenues are derived from the following products:

	For the Year Ended December 31,		
	2002	2003	2004
SuperLink Rx	$ 15,195,000	$ 34,544,000	$ 12,599,000
SuperPlex	2,262,000	3,434,000	2,995,000
AmpLink	—	—	153,000
Other — Primarily Parts and Installation Kits	144,000	599,000	1,040,000
Total	$ 17,601,000	$ 38,577,000	$ 16,787,000

Marketing and Sales

We sell solutions to wireless communication service providers in the Americas and have plans to expand worldwide.

Our earliest experience was with small rural providers who had the most immediate need for the SuperFilter® for range extension and coverage enhancement. We sold our first systems in the fourth quarter of 1997. We sold 83 more systems in 1998, 123 systems in 1999, 393 systems in 2000, 438 systems in 2001, 927 systems in 2002, 1,884 systems in 2003 and 697 systems in 2004.

Our sales cycle has lengthened as we interact with larger Tier I cellular carriers such as Verizon and Sprint. This lengthened cycle is necessary to penetrate these accounts which, by virtue of their size, have far more needs for STI's products than the smaller Tier II and III cellular carriers. This shift in focus was undertaken to begin a move to the suburban and urban markets where the majority of base stations are located and where the need for interference rejection is greatest.

In mid 1999, we signed a five−year supply agreement with U.S. Cellular Corporation, one of the five largest cellular providers in the country. In March 2000, we signed a one year supply agreement with ALLTEL, an even larger domestic wireless service provider, designating STI as their supplier of HTS base station receiver solutions. In December 2001, we signed a follow−on agreement with a major customer for 1,000 SuperFilter Systems, to be delivered over five quarters. During 2003, we signed supply agreements with Verizon Wireless and another major wireless service provider.

In December 2004, we received a follow−on purchase agreement for a minimum of $7.5 million from an existing customer. Depending on the mix of products selected by the carrier, sales under this follow on contract could exceed $11.0 million. We expect to deliver all the units under the contract in 2005.

In 2002, U.S. Cellular accounted for 8% of our net commercial revenues and ALLTEL for 84% of our net commercial revenues. In 2003, ALLTEL accounted for 70% of our net commercial revenues and Verizon accounted for 15% of our net commercial revenues. In 2004, ALLTEL accounted for 63% of our net commercial revenues and Verizon accounted for 24% of our net commercial revenues.

We sell using a direct sales force in the U.S. to maintain and expand our excellent customer relation with Alltel and to focus on the Tier I cellular carriers — Verizon, Cingular, Sprint, Nextel and T−Mobile. We have begun only recently directed efforts to market our products internationally and have not yet had significant international sales. We plan to supplement our direct sales by building a network of domestic distributors to focus on the Tier II and III domestic cellular carriers.

We work with consulting firms to provide data that illustrates the benefits of deploying our products in their customers' network, 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, as warranted, to identify STI 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 customer installations and educate customers.

Backlog

Our commercial backlog consists of accepted product purchase orders with scheduled delivery dates during the next twelve months. We had commercial backlog of $730,000 at December 31, 2004, as compared to $250,000 at December 31, 2003. We also had at December 31, 2004 minimum purchase commitments totaling $7.2 million from one customer under a general purchase agreement. We expect to fulfill these commitments during 2005, but we did not include them in our backlog because the customer has not identified the product mix and/or scheduled delivery dates.

Our Technology

Superconducting Technology

We use superconducting technology to improve both the selectivity (rejection of adjacent band interference) and the sensitivity (ability to "hear" signals better) and reduce the size 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, yttrium barium copper oxide ("YBCO") was discovered, which has a critical temperature of 93K (−180°C). Shortly thereafter, thallium barium calcium copper oxide ("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.

How We Develop Our Technology

As part of our strategy to maintain our technological leadership, we have focused our research and development activities on high temperature superconducting (HTS) materials, RF circuitry, and cryogenics 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.

HTS Materials

We use HTS materials as the base material to produce “thin film” microelectronics, primarily RF filters, in our SuperLink Rx 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 Rx. 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.

RF Circuitry

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.

Cryogenic Cooling Technology

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 has 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. We have shipped almost 4,550 SuperLink Rx systems worldwide, logging in excess of 73 million hours of cumulative operation. The cryogenic coolers in our current models have demonstrated a Mean Time Between Failure of greater than 1 million hours. Its development 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.

Cryogenic Packaging

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.

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 net revenues have been from research and development contracts, sales directly with 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 have marketed 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 $87 million of revenue, and remain a significant source of revenue today, supporting our research and development programs. We also develop and sell products to the US Government, when we can offer a unique capability. These are RF transceiver front−end products that utilize our unique HTS filter and cryogenics technologies.

Our Manufacturing Capabilities

We currently manufacture our SuperLink Rx systems and SuperPlex products at our facilities in Santa Barbara, California. In 1998, we opened a state−of−the−art manufacturing facility in Santa Barbara. STI 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 Rx products on a routine and reproducible basis. 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 Rx 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 Rx 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 sales 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 additional equipment.

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 at a pace consistent with current quantity requirements. The consolidation of STI's supplier base has improved the quality of received parts, while lowering their cost and decreasing lead−times.

Intellectual Property

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 TBCCO as the primary HTS material in our SuperLink Rx 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 Rx. We have a non−exclusive license in the U.S. and selected foreign countries to the primary patents on YBCO from Lucent. We also continue to hold an exclusive worldwide license under several U.S. patents covering TBCCO from the University of Arkansas.

We use a low−cost, highly reliable cryocooler as an essential component of our SuperLink Rx product line. We developed proprietary and patented cryogenic cooling and packaging technology for our cryocooler, but we also have a non−exclusive license from Sunpower, Inc. to various U.S. and foreign patents covering their cryocooler technology.

As of December 31, 2004, we held 75 U.S. patents. With our recent shift from TBCCO to YBCO, we believe that the following 50 U.S. patents are currently relevant to our business:

- 6 patents for technologies directed toward producing thin−film materials and structures expiring in 2010 to 2024;
- 18 patents for cryogenic microwave circuit designs expiring in 2010 to 2023;
- 20 patents covering cryogenics, packaging and systems expiring in 2013 to 2023; and
- 6 patents covering other superconducting technologies expiring in 2013 to 2017.

We also had 25 U.S. patent applications pending as December 31, 2004 which are currently relevant to our business. As of that date, we held 21 foreign issued patents and 14 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.

We license some of our patents to Bruker for NMR application, General Dynamics for government application and Star Cryogenics for Squid applications.

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 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, or market conventional downlink enhancement products such as power amplifiers, as well as with companies that sell antenna−optimizing multiplexers. We also compete against 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, REMEC, LGP/ Allgon, 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. Arraycom is among the leading independent companies that produces these systems. Base station manufactures, such as Ericsson, Nokia, Nortel and Lucent are also developing smart antennas for their base stations.

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 simply purchasing or licensing our technology. With respect to our HTS materials, we compete with DuPont 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. We expect increased competition both from existing competitors and a number of companies that may enter the wireless communications market.

Employees

We employed a total of 154 persons as of December 31, 2004: 75 in manufacturing, 40 in research and development, 25 in sales and marketing and 14 in administration. Ten of our employees have Ph.D.s, and twenty−two 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 its 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 or 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.

Additional Factors That May Affect Our Future Results

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 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, specifically revenues in connection with our SuperLink products, 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.

Our independent registered public accounting firm has included in their report for 2004 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 and 2003. During 2004, we incurred a net loss of $31.2 million and negative cash flows from operations of $21.6 million.

We expect our existing cash resources, together with our line of credit and a planned inventory reduction, will be sufficient to fund our planned operations for at least the next twelve months. We have more inventory than required for current sales volumes and plan to use our excess inventory as a material source of funding in 2005. We believe the key factors to our liquidity in 2005 will be our ability to successfully execute on our plans to increase sales levels and to convert excess inventory to cash. 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, 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 upon a few 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, would 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, and we expect that this will continue. We derived 87% of our commercial product revenues from ALLTEL and Verizon Wireless in 2004 and 85% of our commercial product revenues from ALLTEL and Verizon Wireless in 2003. Our future success depends upon the wireless carriers continuing to purchase our products, and any fluctuations in demand from such customers would negatively impact our results of operations. 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;
- 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 will 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 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.

We have regularly generated a large percentage of our revenues in the last month of a quarter. Since we attempt to ship products quickly after we receive orders, we may not always have a significant backlog of unfilled orders at the start of each quarter and we may be required to book a substantial portion of our orders during the quarter in which such orders ship. Our major customers generally have no obligation to purchase forecasted amounts and may cancel orders, change delivery schedules or change the mix of products ordered with minimal notice and without penalty. As a result, 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 and expansion plans, including plans to increase research and development efforts, manufacturing capacity and sales and marketing efforts, 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 and may be long, making future performance unpredictable.

Our experience with the sales cycle for telecommunications products is limited. The sales cycle 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.

Because customers who purchase our systems must commit a significant amount of capital and other resources, 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. While the sales cycle for an initial order typically has been 12 to 24 months, we may experience longer sales cycles in the future. Such delays or lengthened sales cycles could 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 magnitude 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 SuperLink products could impair our ability to manufacture and deliver our systems on a timely basis.

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. 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 SuperLink products, 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.

We cannot predict whether our products will be commercially accepted, because commercial application of superconductive electronics technology has been limited to date.

Although a number of commercial superconductive electronic products have been introduced by us to date, approximately 27% of our aggregate revenue over the last five fiscal years has been derived from government research and development contracts. New products or product enhancements may or may not be successfully developed, introduced and marketed. Any new products or product enhancements that are marketed may not be well received in the marketplace or achieve any significant degree of commercial acceptance.

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

The average selling price of our SuperLink products decreased in 2002 and 2003. This followed the discount on a large order of Superconductor products in December 2001. We anticipate customer pressure on our product pricing will continue for the foreseeable future. We have a plan to reduce the manufacturing cost of our SuperLink product, 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 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 in international markets by joint venturing with local entities. If and when changes in the mix of our sales channels occur, our gross profit and operating margins may fluctuate significantly.

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. relating to U.S. Patent No. 6,263,215 entitled "Cryoelectronically Cooled Receiver Front End for Mobile Radio Systems." ISCO filed a complaint on July 17, 2001 in the United States District Court for the District of Delaware against us and our wholly−owned subsidiary, Conductus, Inc. The ISCO complaint alleged that our SuperFilter product and Conductus' ClearSite product infringe ISCO's patent. The matter went to trial on March 17, 2003.

On April 3, 2003, the jury returned a unanimous verdict that our SuperFilter III product does not infringe the patent in question, and that ISCO's patent is invalid and unenforceable. The jury also awarded us $3.8 million in compensatory damages based upon a finding that ISCO engaged in unfair competition and acted in bad faith by issuing press releases and contacting our customers asserting rights under this patent.

On April 17, 2003, we filed a Motion for Attorneys' Fees and Disbursements, in which we asked the court to award us our attorneys' fees and other expenses. On the same date, ISCO filed a motion, asking the court to overturn the verdict and grant a new trial. In August 2003, the court rejected ISCO's request to overturn the jury's verdict that the patent is invalid and not infringed by the SuperFilter III product, and accepted the jury's verdict that the patent is unenforceable because of inequitable conduct committed by one of the alleged inventors. ISCO subsequently filed a notice of appeal as to this portion of the court's decision. The court overturned the jury's verdict of unfair competition and bad faith on the part of ISCO and the related $3.8 million compensatory damage award to us, and we filed a notice of appeal as to this portion of the court's decision. The trial court also denied our request for reimbursement of our legal fees associated with the case.

On February 3, 2005, the Appellate Court reaffirmed the unanimous jury verdict that ISCO's US patent is invalid and unenforceable. The Appellate Court also denied our request to reinstate the jury's $3.8 million damage award to us for unfair competition and bad faith on the part of ISCO. The trial judge had overruled the jury's finding on this point, and we appealed that portion of the judge's ruling. We believe the decision of the Appellate Court ends this matter and do not expect any further legal action related to it.

We currently rely on specific technologies and may not successfully adjust to the rapidly changing superconductive electronics market.

The field of superconductivity is characterized by rapidly advancing technology. Our success depends upon our ability to keep pace with advancing superconductive technology, including materials, processes and industry standards. Our development efforts to date have been focused principally on thallium barium calcium copper oxide and, more recently, yttrium barium copper oxide. However, these materials may not ultimately prove commercially competitive against other currently known materials or materials that may be discovered in the future.

We will have to continue to develop and integrate advances in technology for the fabrication of electronic circuits and devices and manufacture of commercial quantities of products. We will also need to continue to develop and integrate advances in complementary technologies. We cannot assure you that our development efforts will not be rendered obsolete by research efforts and technological advances made by others or that materials other than those currently used by us will not prove more advantageous for the commercialization of superconductive electronic products.

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, 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 in the superconductive electronics industry or 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.

The market for superconductive electronics currently is small and in the early stages of commercialization. As superconductive electronics emerge as a viable alternative to current solutions, the market will become intensively competitive. A number of large companies with substantially greater financial resources and capabilities are engaged in programs to develop and commercialize products that may compete with those offered by us, or promote alternative solutions to meet the needs of the wireless network operators. For example, Dupont exhibited a tower top HTS front−end unit at a trade show in March 2002. Small companies, including ISCO International and CryoDevices, Inc., are also developing and commercializing superconductive electronic products for the telecommunications industry. Furthermore, academic institutions, governmental agencies and other public and private research organizations are engaged in development programs that may lead to commercial superconductive electronic products. Our success will depend on our ability to develop and maintain our technological leadership while managing the various risks described in this document.

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 Superconductor or Conductus 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. We cannot assure you that audits and adjustments will not 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.

The supplier for our SuperLink Tx line of power amplifiers was acquired by a competitor in 2003, and the loss of this product line could adversely affect the future growth of our commercial revenues.

During 2002 and 2003, we were marketing a power amplifier product called the SuperLink Tx manufactured by another company. The SuperLink Tx was for wireless networks that suffer from insufficient transmit power on the downlink signal path. Our supplier for this product was acquired by a competitor of ours in November 2003. We have not had significant sales of the SuperLink Tx product to date, but we consider it an important part of our overall business strategy of marketing SuperLink Solutions to maximize the performance of wireless networks. We evaluated alternative sources of power amplifiers for our customers and concluded that suitable power amplifiers are readily available from other vendors. Therefore, we have no plans to resume marketing any power amplifier products. The absence of a power amplifier from our product line could adversely affect our SuperLink Solutions business strategy and adversely affect our strategy for increasing commercial revenues.

Our failure to successfully develop collaborative relationships with government agencies, research institutions and other companies could harm our business.

We have established and continue to seek collaborative arrangements with corporate partners, government agencies and public and private research institutions to develop, manufacture and market superconductive electronic products. Our success depends on the development and success of these collaborative arrangements. However, we may not be able to enter into collaborative arrangements on commercially reasonable terms, and even if established, these arrangements may not succeed. If these programs are successful, our collaborative partners may seek to manufacture jointly developed products themselves or obtain them from alternative sources, rather than purchase them from us. Finally, these programs:

- may require us to share control over our development, manufacturing and marketing programs and relinquish rights to our technology;
- may be subject to termination at the discretion of the collaborative partners; and
- may restrict our ability to engage in certain areas of product development, manufacturing and marketing.

We need to increase our manufacturing capacity to meet our planned production volumes, and our failure to do so would hamper our growth and long−term success.

We need to increase our manufacturing capabilities to meet planned production volumes, and our failure to do so would hamper our growth and long−term success. Currently, we have only limited production facilities. To date, we have focused primarily on developing fabrication processes and producing limited quantities of products. Although our processing technology derives principally from semiconductor manufacturing technology, the fabrication of high−temperature superconductor components is especially difficult because of specific properties unique to high−temperature superconductor materials.

We cannot assure you that we can develop the necessary manufacturing capability to attain yields sufficient to meet the demand for our products at a cost that will allow us to provide a price/performance advantage to customers in comparison with other alternatives. While we have established limited production facilities for our products, we may not be able to expand our processing, production control, assembly, testing and quality assurance capabilities to produce existing or planned superconductive electronic products in adequate commercial quantities.

Even if our products meet performance standards acceptable to the superconductive electronics market, we cannot assure you that any such products will offer price/performance advantages in comparison with other alternatives sufficient to achieve market acceptance, or that production costs will be low enough to operate profitably.

We need to simplify our fabrication process for our radio frequency filters in order to cost−effectively manufacture the SuperLink Rx, our key product, in high volumes.

We manufacture or "fabricate" the radio frequency filters in our SuperLink Rx, our key product, using integrated circuit manufacturing technology, and the cost of manufacturing the filters constitutes a significant part of the total product cost. We need a simpler and less costly fabrication process to manufacture large volumes of the SuperLink Rx in a cost effective manner. We have recently transitioned to a simpler and more scalable fabrication process acquired in our acquisition of Conductus, Inc. in December 2002. We could encounter significant problems with the newly designed production equipment over time. This could significantly delay the timing of our expansion plans, reduce the expected cost savings of manufacturing in high volumes and adversely affect our ability to price the SuperLink Rx competitively with competing technologies.

Most of our competitors use simpler technologies easily outsourced to low−cost overseas manufacturing facilities. Even our new fabrication process is unique and difficult to outsource to other manufacturing facilities. Therefore, we will continue to have a competitive disadvantage in this respect which could adversely affect our ability to price the SuperLink Rx competitively with competing technologies.

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 high−temperature superconductors, we also depend upon our ability to attract and retain qualified technical personnel with substantial industry knowledge and expertise. Competition for qualified personnel is intense and we may not be able to continue to attract and retain qualified personnel necessary for the development of our business.

Regulatory changes 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 are depending on international sales for a significant portion of our future revenue growth, and our international business activities will subject us to risks that could cause demand for our products to fall short of expectations and increase our operating expenses.

A significant part of our long−term business strategy involves the pursuit of growth opportunities in a number of international markets, including China, Japan, Korea, Europe and Latin America. In many international markets, barriers to entry are the result of long−standing relationships between potential customers and our local suppliers and protective regulations, including local content and service requirements. In addition, pursuit of international growth opportunities may require significant investments for an extended period before any returns are realized by us from our investment.

Our business in international markets could be adversely affected by:

- different technology standards and design requirements;
- difficulty in attracting qualified personnel;
- longer payment cycles for and greater difficulties collecting accounts receivable;
- export controls, tariffs and other barriers;
- fluctuations in currency exchange rates;
- nationalization, expropriation and limitations on repatriation of cash;
- social, economic, banking and political risks;
- taxation;
- changes in U.S. laws and policies affecting trade, foreign investment and loans; and
- cultural differences in the conduct of business.

Additionally, our efforts to penetrate international markets often necessitate that we retain an agent in those markets to act on our behalf. Although the agents act autonomously, their actions reflect on us. If such an agent were to violate laws or regulations without our knowledge, such actions could cause us to incur legal liability, lose market opportunities and adversely affect 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. Entering into an acquisition entails many risks, any of which could adversely affect our business, including:

- failure to integrate the acquired assets and/or companies with current business;
- the price paid may exceed the value eventually realized;
- loss of share value to existing stockholders as a result of issuing equity securities as part or the entire purchase price;
- 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.

If we acquire any companies or technologies in the future, they could prove difficult to integrate, could disrupt business, dilute stockholder value or adversely affect our operating results.

We may acquire or make investments in complementary companies, services and technologies in the future. Other than the acquisition of Conductus 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.

Acquisitions and investments involve numerous risks, including:

- difficulties in integrating operations, technologies, services and personnel;
- diversion of financial and management resources from existing operations;
- risk of entering new markets;
- potential loss of key employees; and
- inability to generate sufficient revenues to offset acquisition or investment costs.

In addition, future acquisitions could 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.

Terrorism and the declaration of war by the United States against terrorism may have adversely affected, and may in the future adversely affect, our business.

The terrorist attacks in the United States on September 11, 2001, the declaration of war by the United States against terrorism and the war with Iraq have created significant instability and uncertainty in the world, which may have had, and may in the future have, a material adverse effect on world financial markets, including financial markets in the United States. In addition, such adverse political events may have had, and may in the future have, an adverse impact on economic conditions in the United States. Unfavorable economic conditions in the United States may have had, and may in the future have, an adverse affect on us, including, but not limited to, our ability to expand the market for our products, obtain financing as needed, enter into strategic relationships and effectively compete in the information exchange and knowledge exchange markets.

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

Since we are relatively new to the commercial market and 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.

Your ability to sell shares of our common stock may depend upon us maintaining our Nasdaq listing.

Our common stock is listed on the Nasdaq National Market. We cannot assure you that it will always be listed. The Nasdaq National Market has rules for maintaining a listing, including a minimum bid price of our common stock of $1.00 per share. We may not meet all of the continued listing requirements in the future, particularly if the price of our common stock remains below $1.00 for thirty consecutive trading days. Our stock has traded recently at less than $1 per share. If our common stock is not listed with Nasdaq, it may be difficult or impossible to sell it.

We are a defendant in several securities class action lawsuits, and if any were to result in an unfavorable resolution, they could adversely affect our reputation, profitability and share price.

We have been named as a defendant in several substantially identical class action lawsuits filed in the United States District Court for the Central District of California in April 2004. The cases were consolidated in August 2004, and the plaintiffs filed an amended consolidated complaint in October 2004. We filed a motion to dismiss the complaint in November 2004. The plaintiffs allege securities law violations by us and certain of our officers and directors under SEC Rule 10b−5 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended. The complaint was filed on behalf of a purported class of people who purchased our stock during the period between January 9, 2004 and March 1, 2004. The plaintiffs base their allegations primarily on the fact that we did not achieve our forecasted revenue guidance of $10 to $13 million for the first quarter of 2004. The complaint seeks unspecified damages. We believe the complaint is without merit and intend to defend this action vigorously. However, we cannot assure you that we will prevail in these actions, and, if the outcome is unfavorable to us, our reputation, profitability, balance sheet, cash flow or share price could be adversely affected.

Furthermore, securities class action lawsuits like these have often been brought against companies following periods of stock price volatility, and we may be affected by additional litigation of this type in the future. Class action litigation can result in substantial costs and cause a diversion of management’s attention and resources. This could significantly harm our business, operating results or financial condition.

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

It is possible that the acquisition of a majority of our outstanding voting stock by another company could result in Superconductor’s 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 (90) 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 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 70,000 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 10,000 square feet on a year−to−year basis. We acquired a second leased facility in Sunnyvale, California through the acquisition of Conductus in December 2002. The facility is currently comprised of two 20,000 square feet buildings under leases, which expire in February 2006, with offices, labs and cleanrooms. One building has been subleased through January 2006 and the other building has been abandoned and is available for sublease. 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*

Patent Litigation

We were engaged in a patent dispute with ISCO International, Inc. relating to U.S. Patent No. 6,263,215 entitled "Cryoelectronically Cooled Receiver Front End for Mobile Radio Systems." ISCO filed a complaint on July 17, 2001 in the United States District Court for the District of Delaware against us and our wholly−owned subsidiary, Conductus, Inc. The ISCO complaint alleged that our SuperFilter product and Conductus' ClearSite® product infringe ISCO's patent. The matter went to trial on March 17, 2003.

On April 3, 2003, the jury returned a unanimous verdict that our SuperFilter III product does not infringe the patent in question, and that ISCO's patent is invalid and unenforceable. The jury also awarded us $3.8 million in compensatory damages based upon a finding that ISCO engaged in unfair competition and acted in bad faith by issuing press releases and contacting our customers asserting rights under this patent.

On April 17, 2003, we filed a Motion for Attorneys' Fees and Disbursements, in which we asked the court to award us our attorneys' fees and other litigation expenses. On the same date, ISCO filed a motion, asking the court to overturn the verdict and grant a new trial. In August 2003, the court rejected ISCO's request to overturn the jury's verdict that the patent is invalid and not infringed by the SuperFilter III product, and accepted the jury's verdict that the patent is unenforceable because of inequitable conduct committed by one of the alleged inventors. ISCO subsequently filed a notice of appeal as to this portion of the court's decision. The court overturned the jury's verdict of unfair competition and bad faith on the part of ISCO and the related $3.8 million compensatory damage award to us, and we filed a notice of appeal as to this portion of the court's decision. The trial court also denied our request for reimbursement of our legal fees associated with the case.

On February 3, 2005, the Appellate Court reaffirmed the unanimous jury verdict that ISCO's US patent is invalid and unenforceable. The Appellate Court also denied our request to reinstate the jury's $3.8 million damage award to us for unfair competition and bad faith on the part of ISCO. The trial judge had overruled the jury's finding on this point, and we appealed that portion of the judge's ruling. We believe the decision of the Appellate Court ends this matter and do not expect any further legal action related to it.

Class Action Lawsuits

We were named as a defendant in several substantially identical class action lawsuits filed in the United States District Court for the Central District of California in April 2004. The cases were consolidated in

August 2004, and the plaintiffs filed an amended consolidated complaint in October 2004. The plaintiffs allege securities law violations by us and certain of our officers and directors under Rule 10b−5 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended. The complaint was filed on behalf of a purported class of people who purchased our stock during the period between January 9, 2004 and March 1, 2004 and seeks unspecified damages. The plaintiffs base their allegations primarily on the fact that we did not achieve our forecasted revenue guidance of $10 to $13 million for the first quarter of 2004. We believe the complaint is without merit and intend to defend this action vigorously. However, we cannot assure you that we will prevail in such litigation and, if the outcome is unfavorable to us, our reputation, profitability, balance sheet, cash flow and share price could be adversely affected.

We reached an agreement in principle with the lead plaintiffs appointed by the District Court to settle this matter. Under the terms of the proposed settlement, our insurers will pay $4.0 million into a settlement fund, and we will pay up to $50,000 of the costs of providing notice of the settlement to settlement class members. The agreement in principle remains subject to completion of mutually acceptable written settlement documents, approval by our Board of Directors, and approval by the District Court.

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 National Market under the symbol "SCON." The following table shows the high and low intraday sales prices for our common stock as reported by the Nasdaq National Market for the calendar quarters indicated:

	High	Low
2003		
Quarter ended March 29, 2003	$ 1.20	$ 0.95
Quarter ended June 28, 2003	$ 3.67	$ 0.75
Quarter ended September 27, 2003	$ 5.25	$ 2.05
Quarter ended December 31, 2003	$ 7.65	$ 3.64
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

Holders of Record

We had 354 holders of record of our common stock on March 10, 2005. 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.

Sales of Unregistered Securities

We did not conduct any offerings of equity securities during the fourth quarter of 2004 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 2004.

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,				
	2000	2001	2002	2003	2004
	(In thousands, except per share data)				
Statement of Operations Data:					
Net revenues:					
Net commercial product revenues	$ 5,303	$ 7,601	$ 17,601	$ 38,577	$ 16,787
Government contract revenues	4,643	4,782	4,785	10,759	6,189
Sub license royalties	10	10	10	58	28
Total net revenues	9,956	12,393	22,396	49,394	23,004
Costs and expenses:					
Cost of commercial product revenues	15,710	10,626	19,286	28,249	23,421
Contract research and development	4,235	3,359	2,531	6,899	4,465
Other research and development	2,633	4,606	4,489	4,697	5,036
Selling, general and administrative	8,357	11,907	14,976	20,567	16,051
Restructuring expenses and impairment charges	—	—	—	—	4,128
Write off of in−process research and development	—	—	700	—	—
Total costs and expenses	30,935	30,498	41,982	60,412	53,101
Loss from operations	(20,979)	(18,105)	(19,586)	(11,018)	(30,097)
Other income (expense), net	323	904	73	(327)	(1,120)
Net loss	(20,656)	(17,201)	(19,513)	(11,345)	(31,217)
Less deemed and cumulative preferred stock Dividends	(2,203)	(2,603)	(1,756)	—	—
Net loss available to common stockholders before cumulative effect of accounting change	(22,859)	(19,804)	(21,269)	(11,345)	(31,217)
Cumulative effect of accounting change on preferred stock beneficial conversion feature	(10,612)	—	—	—	—
Net loss available to common stockholders	$ (33,471)	$ (19,804)	$ (21,269)	$ (11,345)	$ (31,217)
Basic and diluted net loss per share:					
Net loss per common share before cumulative effect of accounting change	$ (1.42)	$ (1.10)	$ (0.89)	$ (0.18)	$ (0.37)
Cumulative effect of accounting change	(0.67)				
Net loss per common share	$ (2.09)	$ (1.10)	$ (0.89)	$ (0.18)	$ (0.37)
Weighted average number of shares Outstanding	16,050	17,956	24,020	62,685	84,241

	December 31,				
	2000	2001	2002	2003	2004
Balance Sheet Data:					
Cash and cash equivalents	$ 31,824	$ 15,205	$ 18,191	$ 11,144	$ 12,802
Working capital	36,186	18,753	16,503	15,576	16,146
Total assets	46,761	30,161	65,326	68,123	62,358
Long−term debt, including current portion	751	509	2,123	721	76
Total stockholders' equity	38,409	23,663	49,524	52,220	49,249

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

General

We develop, manufacture and market 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. Our solutions leverage our expertise in high−temperature superconducting filters to "hear" wireless devices with the best possible clarity while rejecting interfering signals. We believe that this combination of interference rejection and receiver sensitivity is only possible using HTS technology. We sell our products directly to wireless carriers in the Americas, and we have plans to expand internationally. Our customers to date include ALLTELL, AT&T Wireless (now part of Cingular), U.S. Cellular, and Verizon Wireless.

We derive our commercial revenues from three product lines:

- *SuperLink Rx*. 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. To address this need, we offer the SuperLink Rx product line for the receiver front−end of base stations. These products combine specialized filters using HTS technology with a proprietary cryogenic cooler and a cryogenically cooled low−noise amplifier. 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 Rx products thereby offer significant advantages over conventional filter systems.

- *AmpLink Rx*. The recently introduced AmpLink Rx is our lower−cost receiver front−end product designed specifically to address the sensitivity requirements of wireless base stations. The AmpLink Rx is a ground−mounted unit which includes a high−performance amplifier and up to six dual duplexers. The enhanced uplink provided by AmpLink Rx 1900 improves PCS network coverage immediately and avoids the installation and maintenance costs associated with tower mounted amplifiers. As network interference increases, the AmpLink Rx 1900 is easily upgradeable to include a SuperLink Rx front−end, which uses HTS technology to maintain the same sensitivity improvement while eliminating the effects of increasing interference.

- *SuperPlex*. SuperPlex, our antenna sharing solution is a line of multiplexers that provides extremely low insertion loss and excellent cross−band isolation. Products in our SuperPlex line of 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, fast and cost−effective network overlays. The SuperPlex product family offers network performance benefits synergistic with SuperLink Rx.

We began commercial production of the SuperFilter (the precursor to the SuperLink Rx) in 1997. Our initial commercial sales of our SuperLink products were to small rural providers who had the most immediate need for range extension and coverage enhancement. We sold our first systems in the fourth quarter of 1997. We sold 83 more systems in 1998, 123 systems in 1999, 393 systems in 2000, 438 systems in 2001, 927 systems in 2002, 1,884 systems in 2003, and 697 systems in 2004. In 2002, U.S. Cellular accounted for 8% of our net commercial revenues and ALLTEL for 84% of our net commercial revenues. In 2003, ALLTEL accounted for 70% of our net commercial revenues and Verizon accounted for 15% of our net commercial revenues. In 2004, ALLTEL accounted for 63% of our net commercial revenues and Verizon Wireless accounted for 24% of our net commercial revenues

In our business model, we use government contracts as a source of funds for our commercial technology development. We primarily pursue government research and development contracts which compliment our commercial product development. In other words, 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.

During 2002 and 2003, we were marketing a power amplifier product called the SuperLink Tx manufactured by another company. The SuperLink Tx was for wireless networks that suffer from insufficient transmit power on the downlink signal path. Our supplier for this product was acquired by a competitor in November 2003. We have not had significant sales of the SuperLink Tx product to date. We evaluated alternative sources of power amplifiers for our customers and concluded that suitable power amplifiers are readily available from other vendors. Therefore, we have no plans to resume marketing any power amplifier products.

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. On an on−going basis, we evaluate our estimates, including those related to bad debts, inventories, recovery of long−lived assets, income taxes, warranty obligations, contingencies and our loss contract with U.S. Cellular. 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. 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 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. As demonstrated in the past three years, 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. 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.

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.

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

All payments to us for work performed on contracts with agencies of the U.S. Government are subject to adjustment upon audit by the Defense Contract Audit Agency. 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 Company with the book value of its net assets, including goodwill. (The Company's 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 the 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, 2004, 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 $149.7 million which is in excess of the total book value of the Company. Therefore, our goodwill was not considered impaired. This goodwill will again be tested for impairment in the fourth quarter of 2005 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. We completed such an analysis as of the fourth quarter of 2004 and determined that no write down was necessary. Our estimates of future cash flows may prove to be inaccurate and we may understate or overstate the write down of long lived assets.

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,		
	2002	2003	2004
Net loss:			
As reported	$ (19,513,000)	$ (11,345,000)	$ (31,217,000)
Stock−based employee compensation included in net loss	—	—	48,000
Stock−based compensation expense determined under fair value method	(4,056,000)	(5,435,000)	(5,543,000)
Pro forma	$ (23,569,000)	$ (16,780,000)	(36,712,000)
Basic and Diluted Loss per Share			
As reported	$ (0.89)	$ (0.18)	$ (0.37)
Stock−based compensation expense determined under fair value method	(0.17)	(0.09)	(0.07)
Pro forma	$ (1.06)	$ (0.27)	$ (0.44)

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 are currently involved as a defendant in a securities class action lawsuit. This matter is discussed below in *“Legal Proceedings.”* We reached an agreement in principle with the lead plaintiffs appointed by the District Court to settle this matter. Under the terms of the proposed settlement, our insurers will pay $4.0 million into a settlement fund, and we will pay up to $50,000 of the costs of providing notice of the settlement to settlement class members. The agreement in principle remains subject to completion of mutually acceptable written settlement documents, approval by our Board of Directors, and approval by the District Court. We recorded an estimated liability of $4.0 million for the settlement and an estimated receivable of $4.0 million for the expected insurance proceeds. We periodically reassess our potential liability as additional information becomes available. If we later determine that the probable loss is greater than our reserve or expected insurance proceeds, we would record an additional reserve for the potential additional loss. The ultimate amount of further losses, if any, could materially impact our results of operations, financial condition or cash flows.

Backlog

Our commercial backlog consists of accepted product purchase orders with scheduled delivery dates during the next twelve months. We had commercial backlog of $730,000 at December 31, 2004, as compared to $250,000 at December 31, 2003. We also had at December 31, 2004 minimum purchase commitments totaling $7.2 million from one customer under a general purchase agreement. We expect to fulfill these commitments during 2005, but we did not include them in our backlog because the customer has not identified the product mix and/or scheduled delivery dates.

Results of Operations

Acquisition of Conductus

We acquired Conductus, Inc. on December 18, 2002. Conductus was located in Sunnyvale California and was a competing supplier of high−temperature superconducting technology for wireless networks. We discontinued their competing commercial product line (the ClearSite) and incorporated their technology into our commercial product line (the SuperLink). The results of Conductus are included in the consolidated financial statement for 13 days in 2002 following its acquisition and for all periods thereafter. The acquisition did not have a significant impact on the results of operations for the year ended December 31, 2002. Conductus contributed $4.6 million to our government revenues in 2003. We consolidated the Conductus operation into our Santa Barbara facilities in the second quarter of 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 revenues consist primarily of commercial product revenues and government contract revenues. We also generate some additional revenues from sublicensing our technology.

Net commercial product revenues decreased 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 Rx 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. The average selling price of our SuperLink Rx product is comparable between the periods. Our two largest customers accounted for 87% of our net commercial revenues in 2004 and 85% in 2003. 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.

Net commercial product revenue consists of gross commercial product sales proceeds less sales discounts and the allocation of certain sales proceeds to a warrant issued to one customer in 1999 under a long−term supply agreement. The following table summarizes the calculation of net commercial product revenue for 2004 and 2003:

	Year Ended December 31,	
	2003	2004
	(Dollars in thousands)	
Gross commercial product sales proceeds	$ 38,964	$ 16,931
Less allocation of proceeds to warrants issued to U.S. Cellular	(90)	—
Less sales discounts	(297)	(144)
Net commercial product revenues	$ 38,577	$ 16,787

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.

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 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.

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 gross profit and margins:

	For the Years Ended December 31,			
	2003		2004	
	(Dollars in thousands)			
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 charge for excess and obsolete inventory in 2003. We regularly review inventory quantities on hand and provided 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 $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 and 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 of a new, lower cost wafer deposition process called Reactive Co−Evaporation.

As a result of all cost reduction initiatives, we saved approximately $2.4 million in the quarter ended December 31, 2004, as compared to the first quarter of 2004.

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 following table summarizes our actual restructuring and impairment charges for 2004 and our estimated charges for 2005 relating to the actions taken in 2004:

	Restructuring Charges for 2004	Impairment Charges for 2004	Total for 2004	Additional to be Incurred In 2005
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	50,000
Total	$ 3,609,000	$ 1,574,000	$ 5,183,000	$ 50,000
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	$ 50,000

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 (discussed below).

We were named as a defendant in several substantially identical class action lawsuits filed in the United States District Court for the Central District of California in April 2004. We recently reached an agreement in principle with the lead plaintiffs appointed by the District Court to settle this matter. Under the terms of the proposed settlement, our insurers will pay $4.0 million into a settlement fund, and we will pay up to $50,000 of the costs of providing notice of the settlement to settlement class members. The agreement in principle remains subject to completion of mutually acceptable written settlement documents, approval by our Board of Directors, and approval by the District Court. 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 for the year ended December 31, 2004 as compared to $11.3 million in the same period last year.

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 same period last year.

2003 Compared to 2002

Total net revenues increased by $27.0 million, or more than 100%, from $22.4 million in 2002 to $49.4 million for 2003. This increase is primarily due to higher commercial product sales and government and other contract revenues, including the government contract and other revenue from our acquisition of Conductus in December 2002.

Net commercial product revenues increased to $38.6 million in 2003 from $17.6 million in 2002, an increase of $21.0 million, or more than 100%. This increase is primarily the result of an increase in sales of our SuperLink Rx products of $17.2 million, increased sales of our multiplexer product of $1.2 million and a $2.3 million decrease in sales proceeds allocated to warrants issued to U.S. Cellular. The average selling price for the SuperLink Rx decreased 7% on our SIX−Pak units and increased 1% on our TWO−Pak units. Our two largest customers accounted for 85% of our net commercial revenues in 2003 and 92% in 2002.

Net commercial product revenue consists of gross commercial product sales proceeds less sales discounts and the allocation of certain sales proceeds to a warrant issued to one customer in 1999 under a long−term supply agreement. The following table summarizes the calculation of net commercial product revenue for 2003 and 2002:

	Year Ended December 31,	
	2002	**2003**
	(Dollars in thousands)	
Gross commercial product sales proceeds	$ 20,040	$ 38,964
Less allocation of proceeds to warrants issued to U.S. Cellular	(2,283)	(90)
Less sales discounts	(156)	(297)
Net commercial product revenues	$ 17,601	$ 38,577

Government contract revenues increased by $6.0 million, or more than 100%, from $4.8 million in 2002 to $10.8 million in 2003. This increase results primarily from the acquisition of Conductus which totaled $4.6 million and the remainder to a modest increase in other government contracts at our Santa Barbara facility.

Cost of commercial product revenue includes all direct costs, manufacturing overhead and related start−up costs. The cost of commercial product revenues totaled $28.2 million for 2003. For 2002, cost of commercial products revenues totaled $19.3 million, and was reduced by amortization credits of $2.0 million for the accrual of a non−cash contract loss on the purchase order from U.S. Cellular. Please read the discussion under the caption *"Non−Cash Charges for Warrants Issued to U.S. Cellular."* For 2002, excluding these amortization credits, the cost of commercial revenues totaled $21.3 million compared to $28.2 million in 2003. Increased costs resulting from increased unit shipments and higher costs associated with ramping up our manufacturing capacity were offset by lower material and labor costs per unit and the effect of increased manufacturing efficiencies.

The following is an analysis of our gross profit and margins for 2002 and 2003:

	For the Years Ended December 31,			
	2002		2003	
	(Dollars in thousands)			
Net commercial product sales	$ 17,601	100.0%	$ 38,577	100.0%
Total cost of commercial product sales	19,286	109.6%	28,249	73.2%
Gross profit	$ (1,685)	(9.6)%	$ 10,328	26.8%

We generated positive commercial gross margins of $10.3 million in 2003 from the sale of our commercial products, as compared to negative gross margins of $1.7 million for 2002. The improvement is due to increased commercial product revenues and decreased manufacturing cost per unit.

Contract research and development expenses totaled $6.9 million in 2003 and $2.5 million in 2002. The increase is primarily from the acquisition of Conductus. The remainder is attributable to a modest increase in government contract revenues at our Santa Barbara facility.

Other research and development expenses are for internally funded development of our commercial products. These expenses increased to $4.7 million in 2003, and are comparable to $4.5 million in 2002.

Selling, general and administrative expenses totaled $20.6 million in 2003 as compared to $15.0 million in 2002. This increase results primarily from increased domestic and international marketing and sales efforts, higher expenses related to the acquired Conductus operations and higher ISCO litigation expenses. ISCO litigation expenses totaled $4.8 million in 2003, as compared to $3.1 million in 2002.

Interest income decreased in 2003 as compared to 2002 due to decreased levels of cash available for investment and the decline in interest rates.

Interest expense increased in 2003 as compared to 2002 and resulted from the increased debt incurred in the fourth quarter of 2002, from short−term borrowings in 2003 and accretion of long term liabilities recorded in the Conductus acquisition.

We had a net loss of $11.3 million for 2003 as compared to $19.5 million in 2002.

The net loss available to common shareholders totaled $11.3 million in 2003, or $0.18 per common share, as compared to $21.3 million, or $0.89 per common share, in 2002. The amounts for 2002 include a charge of $1.8 million for a non−cash deemed distribution on preferred stock.

Liquidity and Capital Resources

Cash Flow Analysis

As of December 31, 2004, we had working capital of $16.1 million, including $12.8 million in cash and cash equivalents, as compared to working capital of $15.6 million at December 31, 2003, which included $11.1 million in cash and cash equivalents. We currently invest our excess cash in short−term, investment−grade, money−market instruments with maturities of three months or less. We believe that all of our cash investments would be readily available to us should the need arise.

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 and cash equivalents decreased by $7.1 million from $18.2 million at December 31, 2002 to $11.1 million at December 31, 2003. Cash used in operations was partially offset by cash received from the sale of common stock and warrants in a private placement, exercises of warrants and options and a net increase in borrowings.

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 and other current assets, patents and licenses and accounts payable payments. Inventory increased during 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 the year ended December 31, 2003 due to increased amortization related to the acquired technology in the Conductus acquisition and increased fixed assets expenditures in the prior year. Cash used in operations totaled $20.0 million in 2002. We used $16.0 million to fund the cash portion of our net loss. We also used cash to fund a $3.9 million increase in inventory, accounts receivable, patents and licenses and reduction in accounts payable.

Net cash used in investing activities totaled $5.5 million in 2002, $4.4 million in 2003 and $1.8 million in 2004. These expenditures all related primarily to purchases of manufacturing equipment and facilities improvements to increase our production capacity. In 2003, cash of $500,000 was used to pay upfront license fees for a new technology license. In 2002, cash of $429,000 was used in the acquisition of Conductus, Inc. and $374,000 was provided by the release of restrictions on $374,000 of cash obtained through the Conductus acquisition.

Net cash provided by financing activities totaled $25.1 million in 2004. Cash received from the sale of common stock and exercise of options and warrants totaled $28.1 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 totaling $7.9 million and payments against our long−term debt totaling $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 and was partially offset by the reduction in long−term borrowings of $1.4 million. Net cash provided by financing activities totaled $28.4 million in 2002. Cash received from the sale of common stock and warrants totaled $31.9 million, which was partially offset by a $3.0 million premium paid on conversion of the Series E Convertible Preferred Stock and payments against our long−term debt totaling $519,000.

Financing Activities

We have historically financed our operations through a combination of cash on hand, cash provided from operations, 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 March 17, 2005, and we expect to renew it for another year on substantially the same terms as currently in effect. 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 (5.25% at December 31, 2004) plus 2.50% subject to a minimum monthly charge. Outstanding amounts under this borrowing facility at December 31, 2004 totaled $938,000. The amount outstanding is repaid upon collection of the underlying accounts receivable. 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 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 $89,000.

• *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 Sunnyvale lease obligations total $1,386,000 and are due in monthly installments through February 2006. We consolidated the Sunnyvale operations into our Santa Barbara facility in 2004 and recorded a liability for the present value of the remaining obligations under the Sunnyvale leases. We included these liabilities in the financial statements under Accrued Liabilities and Other Long Term Liabilities.

• *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, 2004, 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	$ 89,000	$ 52,000	$ 37,000	$ —	$ —
Operating leases	10,279,000	2,400,000	2,640,000	2,586,000	2,653,000
Minimum license commitment	2,270,000	170,000	300,000	300,000	1,500,000
Fixed asset and inventory purchase commitments	815,000	815,000	—	—	—
Total contractual cash obligations	$ 13,453,000	$ 3,437,000	$ 2,977,000	$ 2,886,000	$ 4,153,000

Capital Expenditures

We plan to invest approximately $500,000 in fixed assets during 2005.

Future Liquidity

Our principal sources of liquidity consist of existing cash balances and funds expected to be generated from future operations. We expect our existing cash resources, together with our line of credit and a planned inventory reduction, will be sufficient to fund our planned operations for at least the next twelve months. We have more inventory than required for current sales volumes and plan to use our excess inventory as a material source of funding in 2005. We believe the key factors to our liquidity in 2005 will be our ability to successfully execute on our plans to increase sales levels and to convert excess inventory to cash. 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 any future NASDAQ listing issues. Our continued NASDAQ listing requires us to maintain a minimum of $1 share price. Our stock has recently begun trading at levels significantly below $1 per share. Although NASDAQ de−listing would not be immediate, our lower share price could make capital raising more difficult.

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.

Our independent registered public accounting firm has included in their audit report for fiscal 2004 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 and 2003. In 2004, we incurred a net loss of $31.2 million and had negative cash flows from operations of $21.6 million. In response, 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 implementation of a new, lower cost wafer deposition process.

Non−Cash Charges for Warrants Issued To U.S. Cellular

In August 1999, we entered into a warrant agreement with United States Cellular Corporation (“U.S. Cellular”) where the exercise of a warrant to purchase up to 1,000,000 shares of common stock was conditioned upon future product purchases by U.S. Cellular. Under the terms of the warrant, U.S. Cellular vests in the right to purchase one share of common stock at $4 per share for every $25 of SuperFilter systems purchased. The warrant is immediately exercisable with respect to any vested shares and expires August 27, 2004. For accounting purposes, we are allocating proceeds from sales under this agreement between commercial product revenues and the estimated value of the warrants vesting in connection with those sales. The estimated fair value of the warrants in excess of the related sales, when applicable, is recorded in cost of commercial product revenues.

In September 2000, we received a $7.8 million noncancelable purchase order from U.S. Cellular for SuperFilter® systems to be shipped over the next nine quarters. In consideration for the purchase order, we amended the August 1999 warrant agreement and vested 312,000 warrants to U.S. Cellular. The vested warrants are immediately exercisable, not subject to forfeiture, and U.S. Cellular has no other purchase obligations.

We estimated the fair value of the warrants vesting upon receipt of this order at $5,635,000 using the Black−Scholes option−pricing model and recorded this amount as a deferred warrant charge in the statement of stockholders’ equity. As SuperFilter systems are shipped under this purchase order, the related sales proceeds will be allocated between stockholders’ equity and commercial product revenue using the percentage relationship which existed between the fair value of the warrants as recorded in September 2000 and the amount of the non−cancelable purchase order. During 2001 and 2002 sales proceeds of $2,237,000 and $2,280,000, respectively, for shipments pursuant to this purchase order were allocated to the deferred warrant charge and proceeds of $879,000 and $967,000, respectively, were recorded as commercial product revenues under this purchase order.

After the allocation of sales proceeds under the $7.8 million purchase order to the related warrants, the estimated cost of providing products under the purchase order exceeded related revenue by $5.3 million. The resulting loss was reflected in the results of operations for the year ended December 31, 2000. During the years ending December 31, 2001 and 2002, $2,243,000 and $1,998,000, respectively, of this reserve was reversed against the cost of product delivered under this purchase order.

During the fourth quarter of 2002, deliveries under the $7.8 million purchase order were completed. For accounting purposes, proceeds from subsequent sales to U.S. Cellular under this agreement are again being allocated between commercial product revenue and the estimated value of the warrants vesting using the Black−Scholes option−pricing model. For subsequent product sales, in the fourth quarter of 2002, the year ended December 31, 2003 and December 31, 2004, U.S. Cellular vested in the right to exercise the warrant and purchase a total of 22,540, 38,088 and 7,024 shares of common stock, respectively. Sales proceeds allocated to warrants vesting in 2002, 2003 and 2004 totaled $3,000, $90,000 and less than $1,000, respectively.

This warrant expired unexercised on August 27, 2004.

Net Operating Loss Carryforward

As of December 31, 2004, we had net operating loss carryforwards for federal and state income tax purposes of approximately $244.6 million and $119.4 million, respectively, which expire in the years 2005 through 2024. Of these amounts $93.7 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 $2.6 million and $2.4 million, respectively, which expire in the years 2005 through 2024. Of these amounts $972,000 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 $101.6 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 $93.7 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 $51.4 million and are not subject to this limitation.

Future Accounting Requirements

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123® (revised 2004), “Share−Based Payment” which amends SFAS Statement 123 and will be effective for public companies for interim periods or annual periods beginning after June 15, 2005. The new standard will require us to recognize compensation costs in our financial statements in an amount equal to the fair value of share−based payments granted to employees and directors. We are currently evaluating how we will adopt the standard and evaluating the effect that the adoption of SFAS 123® will have on our financial position and results of operations.

In November 2004, the FASB issued SFAS No. 151, “Inventory Costs”, and 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, 2004, we had approximately $11.9 million invested in a money market account yielding approximately 2.013%. 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 $119,000 per annum. Also, at December 31, 2004 we had $938,000 outstanding under a bank borrowing arrangement bearing interest at the prime rate (5.25% at December 31, 2004) plus 2.50%. Assuming a 1% increase in the prime rate interest and that the amount was outstanding for the entire year, interest expense would increase approximately $9,000.

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 *"Business — Additional Factors That May Affect Our Future Results"* 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.

Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures and have concluded, as of December 31, 2004, 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, 2004.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 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 quarter ended December 31, 2004 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 2004.

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, 2004.

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, 2004.

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, 2004.

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, 2004.

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, 2004.

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 Accountants, are included in Part IV of this Report on the pages indicated:

	Page
Report of Independent Registered Public Accounting Firm	F−1
Consolidated Balance Sheet as of December 31, 2003 and 2004	F−3
Consolidated Statement of Operations for the years ended December 31, 2002, 2003 and 2004	F−4
Consolidated Statement of Stockholders' Equity for the years ended December 31, 2002, 2003 and 2004	F−5
Consolidated Statement of Cash Flows for the years ended December 31, 2002, 2003 and 2004	F−6
Notes to Consolidated Financial Statements	F−7

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(8)
3.2	Certificate of Amendment of Restated Certificate of Incorporation (15)
3.3	Bylaws of the Registrant (9)
3.4	Certificate of Amendment of Bylaws dated May 17, 2001 (15)
3.5	Certificate of Amendment of Bylaws dated August 8, 2001 (15)
4.1	Form of Common Stock Certificate (1)
4.2	Third Amended and Restated Stockholders Rights Agreement (9)
4.4	Registration Rights Agreement to United States Cellular Corporation (10)
4.5	Form of Warrant to United States Cellular Corporation (10)
4.8	Certificate of Designations, Preferences and Rights of Series E Convertible Stock (13)
4.9	Securities Purchase Agreement dated as of September 29, 2000 between the Company and RGC International Investors, LDC. (Exhibits and Schedules Omitted) (13)
4.10	Registration Rights Agreement dated as of September 29, 2000 between the Company and RGC International Investors, LDC. (13)

Number	Description of Document
4.11	Initial Stock Purchase Warrant dated as of September 29, 2000 between the Company and RGC International Investors, LDC. (13)
4.12	Incentive Stock Purchase Warrant dated as of September 29, 2000 between the Company and RGC International Investors, LDC. (13)
4.13	Registration Rights Agreement, dated March 6, 2002 (16)
4.14	Warrants to Purchase Shares of Common Stock, dated March 11, 2002 (16)
4.15	Registration Rights Agreement dated October 10, 2002 (17)
4.16	Warrants to Purchase Common Stock dated October 10, 2002 (17)
4.17	Common Stock Purchase Agreement, dated March 8, 2002 between Conductus, Inc. and the investors signatory thereto (7)
4.18	Warrant to Purchase Common Stock, dated March 8, 2002 by Conductus, Inc. to certain investors (20)
4.19	Registration Rights Agreement, dated March 26, 2002, between Conductus, Inc. and certain investors (20)
4.20	Warrant to Purchase Common Stock, dated August 7, 2000, issued by Conductus to Dobson Communications Corporation (22) *
4.22	Form of Warrant to Purchase Common Stock between Conductus and Series B investors, dated September 28, 1998, issued by Conductus in a private placement (23)
4.23	Form of Series C Preferred Stock and Warrant Purchase Agreement, dated December 10, 1999, between Conductus and Series C Investors (24)
4.24	Form of Warrant Purchase Common Stock between Conductus and Series C investors, dated December 10, 1999, issued by Conductus in a private placement (24)
4.26	Form of Warrant (26)
4.27	Form of Registration Rights Agreement (26)
10.1	Technical Information Exchange Agreement between the Registrant and Philips dated September 1989(2)
10.2	1992 Director Option Plan (2)
10.3	Form of Indemnification Agreement (2)
10.4	License Agreement between the Registrant and the University of Arkansas dated April 9, 1992, as amended (2)
10.5	1992 Stock Option Plan (2)
10.6	Proprietary Information & Patents Inventions Agreement among the Registrant, E−Systems, Inc. and various other parties; Purchase Order dated October 10, 1991(2)
10.7	Joint Venture Company (JDC) Agreement between the Registrant and Sunpower Incorporated dated April 2, 1992(2)*
10.8	Government Contract issued to Registrant by the Defense Advanced Research Projects Agency through the Office of Naval Research dated September 4, 1991 (2)
10.9	License Agreement between the Registrant and E.I. DuPont de Nemours and Company dated December 1992 (2) *
10.10	Superconductor Technologies Inc. Purchase Agreement (3) *
10.11	Form of Distribution Agreement (4)

10.12	Amended and Restated 1988 Stock Option Plan, as amended, with form of stock option agreement (4)
10.13	Joint Venture Agreement between Registrant and Analeptic Technologies (S) Pet Ltd., dated May 20, 1996 (5) *
10.15	1999 Stock Option Agreement (11)
10.16	1998 Stock Option Plan (14)
10.17	Employment Agreement with M. Peter Thomas dated January 1, 2001 (15)
10.18	Promissory Note with M. Peter Thomas dated April 9, 2001 (15)
10.19	Securities Purchase Agreement, dated March 6, 2002 (16)

Number	Description of Document
10.20	Agreement Concerning Additional Investors, dated March 8, 2002 (16)
10.21	Letter Agreement dated September 29, 2002 between Superconductor and RGC International Investors, LPC (17)
10.22	Subordinated Promissory Note dated September 30, 2002 issued to RGC International Investors, LPC (17)
10.23	Form of Change in Control Agreement dated October 10, 2002 (19)
10.24	Charles E. Shalvoy Change in Control Agreement dated October 10, 2002 (19)
10.25(a)	Securities Purchase Agreement dated October 20, 2002 (18)
10.25(b)	Supplement to Securities Purchase Agreement dated October 28, 2002 for additional investment (19)
10.26	Promissory Note between Charles E. Shalvoy and Conductus dated December 28, 2000 (19)
10.27	Security Agreement between Charles E. Shalvoy and Conductus dated December 28, 2000 (19)
10.28	Promissory Note Agreement between Charles E. Shalvoy and Conductus dated August 21, 2001 (19)
10.29	Security Agreement between Charles E. Shalvoy and Conductus dated August 21, 2000 (19)
10.30	Purchase Contract, dated as of August 7, 2000, between Conductus and Dobson Cellular Systems, Inc. (21)
10.31	Form of Change of Control Agreement dated March 28, 2003 (25)
10.32	Accounts Receivable Purchases Agreement dated March 28, 2003 by and between Registrant and Silicon Valley Bank (25)
10.33	Unconditional Guaranty dated March 27, 2003 issued by Conductus, Inc. to Silicon Valley Bank (25)
10.34	Patent License Agreement between Telcordia Technologies, Inc. and Registrant dated July 13, 2002 (25)*
10.35	Securities Purchase Agreement dated June 23, 2003 (26)
10.36	Form of Investor Warrant (26)
10.37	Form of Registration Rights Agreement (26)
10.38	2003 Equity Incentive Plan (27)
10.39	Code of Business Conduct and Ethics (28)
10.40	Patent License Agreement by and between Lucent Technologies and the Company * (28)
10.41	Executive Incentive Compensation Plan (28)
10.42	Accounts Receivable Purchase Modification Agreement dated March 17, 2004 (29)
10.43	Consulting Agreement with Charles Shalvoy (30)
10.44	License Agreement with Sunpower ** (30)
10.45	Amendment to Change of Control Agreement with M. Peter Thomas (30)
10.46	Employment Agreement with Jeffrey Quiram (31)
10.47	Option Agreement with Jeffrey Quiram (31)
10.48	Retirement Agreement with M. Peter Thomas (31)

10.49	Management Agreement with Trilogy Enterprises LLC, as amended (31)
10.50	Undertaking Regarding Advances between Company and M. Peter Thomas and Martin S. McDermut (31)
10.51	Form of Option Agreement for 2003 Equity Incentive Plan (31)
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 Registration Statement on Form S−1 (Reg. No. 33−56714).

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

(3) Incorporated by reference from the Registrant's Annual Report on Form 10−K filed for the year ended December 31, 1993.

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

(5) Incorporated by reference from the Registrant's Registration Statement on Form S−1 (Reg. No. 333−10569).

(6) Incorporated by reference from the Registrant's Report on Form 10−Q filed on May 8, 1997 for the quarter ended March 29, 1997. The exhibit listed is incorporated by reference to Exhibit 10.1 of Registrant's Report on Form 10−Q.

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

(8) Incorporated by reference from the Registrant's Quarterly Report on Form 10−Q filed for the quarter ended April 3, 1999.

(9) Incorporated by reference from the Registrant's Quarterly Report on Form 10−Q filed for the quarter ended July 3, 1999.

(10) Incorporated by reference from the Registrant's Quarterly Report on Form 10−Q filed for the quarter ended October 2, 1999.

(11) Incorporated by reference from the Registrant's Registration Statement on Form S−8 (Reg. No. 333−90293).

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

(13) Incorporated by reference from the Registrant's Current Report on Form 8−K, filed October 4, 2000.

(14) Incorporated by reference from the Registrant's Registration Statement on Form S−8 (Reg. No. 333−56606).

(15) Incorporated by reference from the Registrant's Quarterly Report on Form 10−Q filed for the quarter ended June 30, 2001.

(16) Incorporated by reference from Registrant's Annual Report on Form 10−K for the year ended December 31, 2001.

(17) Incorporated by reference from the Registrant's Current Report on Form 8−K, filed October 2, 2002.

(18) Incorporated by reference from the Registrant's Current Report on Form 8−K, filed October 14, 2002.

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

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

(21) Incorporated by reference from Conductus, Inc.'s Quarterly Report on Form 10−Q, filed with the SEC on November 14, 2000.

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

(23) Incorporated by reference from Conductus, Inc.'s Annual Report on Form 10−K, filed with the SEC on March 30, 2000.

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

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

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

(27) Incorporated by reference from Registrant's Registration Statement on Form S−8 (Reg. No. 333−106594).

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

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

(30) Incorporated by reference from Registrant's Quarterly Report on Form 10−Q for the quarter ended October 2, 2004.

(31) Filed herewith.

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

** Confidential treatment has been requested for certain portions of this exhibit.

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

Report of Independent Registered Public Accounting Firm

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

We have completed an integrated audit of Superconductor Technologies Inc.’s 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 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 accompanying 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, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 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 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 $21.6 million in cash for operations in 2004. 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 in “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, 2004 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, 2004, 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 11, 2005

SUPERCONDUCTOR TECHNOLOGIES INC.
CONSOLIDATED BALANCE SHEET

	December 31, 2003	December 31, 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 11,144,000	$ 12,802,000
Accounts receivable, net	8,809,000	1,434,000
Inventory, net	8,802,000	9,327,000
Insurance settlement receivable	—	4,000,000
Prepaid expenses and other current assets	760,000	906,000
Total Current Assets	29,515,000	28,469,000
Property and equipment, net of accumulated depreciation of $15,061,000 and $15,189,000, respectively	12,534,000	10,303,000
Patents, licenses and purchased technology, net of accumulated amortization of $3,173,000 and $768,000, respectively	5,367,000	2,833,000
Goodwill	20,107,000	20,107,000
Other assets	600,000	646,000
Total Assets	$ 68,123,000	$ 62,358,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Line of credit	$ 3,308,000	$ 938,000
Accounts payable	5,154,000	2,691,000
Accrued expenses	4,832,000	4,601,000
Legal settlement liability	—	4,050,000
Current portion of capitalized lease obligations and long term debt	645,000	43,000
Total Current Liabilities	13,939,000	12,323,000
Capitalized lease obligations and long term−debt	76,000	33,000
Other long term liabilities	1,888,000	753,000
Total Liabilities	15,903,000	13,109,000
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, 125,000,000 shares authorized, 68,907,109 and 107,711,026 shares issued and outstanding, respectively	69,000	108,000
Capital in excess of par value	168,776,000	196,983,000
Notes receivable from stockholder	(820,000)	(820,000)
Accumulated deficit	(115,805,000)	(147,022,000)
Total Stockholders' Equity	52,220,000	49,249,000
Total Liabilities and Stockholders' Equity	$ 68,123,000	$ 62,358,000

See accompanying notes to the consolidated financial statements

SUPERCONDUCTOR TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF OPERATIONS

	For the Year Ended December 31		
	2002	2003	2004
Net revenues:			
Net commercial product revenues	$ 17,601,000	$ 38,577,000	$ 16,787,000
Government and other contract revenues	4,785,000	10,759,000	6,189,000
Sub license royalties	10,000	58,000	28,000
Total net revenues	22,396,000	49,394,000	23,004,000
Costs and expenses:			
Cost of commercial product revenues	19,286,000	28,249,000	23,421,000
Contract research and development	2,531,000	6,899,000	4,465,000
Other research and development	4,489,000	4,697,000	5,036,000
Selling, general and administrative	14,976,000	20,567,000	16,051,000
Restructuring expenses and impairment charges	—	—	4,128,000
Write off of in−process research and development	700,000	—	—
Total costs and expenses	41,982,000	60,412,000	53,101,000
Loss from operations	(19,586,000)	(11,018,000)	(30,097,000)
Interest income	218,000	177,000	125,000
Interest expense	(145,000)	(504,000)	(1,245,000)
Net loss	(19,513,000)	(11,345,000)	(31,217,000)
Less:			
Deemed distribution attributable to preferred stock	(1,756,000)	—	—
Net loss available to common stockholders for computation of loss per common share	$ (21,269,000)	$ (11,345,000)	$ (31,217,000)
Basic and diluted net loss per common share	$ (0.89)	$ (0.18)	$ (0.37)
Weighted average number of common shares outstanding	24,019,542	62,685,292	84,241,447

See accompanying notes to the consolidated financial statements

SUPERCONDUCTOR TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Convertible Preferred Stock		Common Stock		Capital in	Deferred			
					Excess of	Warrant	Receivable from	Accumulated	
	Shares	Amount	Shares	Amount	par Value	Charges	Stockholder	Deficit	Total
Balance at December 31, 2001	34,500	$ —	18,579,160	$ 19,000	$ 110,871,000	$ (2,280,000)	$ —	$ (84,947,000)	$ 23,663,000
Conversion of convertible preferred stock	(34,500)		2,878,351	3,000	(3,000)				—
Exercise of stock options			26,473		83,000				83,000
Issuance of common stock for cash			24,811,240	25,000	31,801,000				31,826,000
Acquisition of Conductus, Inc.			13,528,329	13,000	16,678,000		(820,000)		15,871,000
Amortization of deferred warrant charges						2,280,000			2,280,000
Payment of convertible preferred stock conversion premium					(4,686,000)				(4,686,000)
Net loss								(19,513,000)	(19,513,000)
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

See accompanying notes to the consolidated financial statements.

SUPERCONDUCTOR TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Year Ended December 31		
	2002	2003	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (19,513,000)	$ (11,345,000)	$ (31,217,000)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	1,931,000	3,277,000	3,463,000
Non−cash restructuring and impairment charges	—	—	3,659,000
Amortization of accrued loss on sales contract	(1,998,000)	—	—
Warrants and options charges	2,283,000	104,000	973,000
Provision for excess and obsolete inventories	567,000	719,000	4,836,000
Purchase of in process research and development	700,000	—	—
Changes in assets and liabilities, net of effect of acquisition:			
Accounts receivable	(1,655,000)	(5,404,000)	7,375,000
Inventory	(1,180,000)	(3,174,000)	(5,361,000)
Prepaid expenses and other current assets	160,000	(184,000)	(146,000)
Patents and licenses	(553,000)	(531,000)	(546,000)
Other assets	(75,000)	(114,000)	(46,000)
Accounts payable and accrued expenses	(618,000)	(1,806,000)	(4,570,000)
Net cash used in operating activities	(19,951,000)	(18,458,000)	(21,580,000)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(5,398,000)	(3,855,000)	(1,812,000)
Decrease in restricted cash	374,000	—	—
Payment of up front license fee	—	(500,000)	—
Cash used in acquisition of Conductus, Inc.	(429,000)	—	—
Net cash used in investing activities	(5,453,000)	(4,355,000)	(1,812,000)
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from borrowings	—	7,234,000	5,567,000
Payments on short term borrowings	—	(3,926,000)	(7,937,000)
Payments on long−term obligations	(519,000)	(1,402,000)	(645,000)
Net proceeds from sale of common stock and exercise of warrants and options	31,909,000	13,860,000	28,065,000
Payment of preferred stock conversion premium	(3,000,000)	—	—
Net cash provided by financing activities	28,390,000	15,766,000	25,050,000
Net increase (decrease) in cash and cash equivalents	2,986,000	(7,047,000)	1,658,000
Cash and cash equivalents at beginning of year	15,205,000	18,191,000	11,144,000
Cash and cash equivalents at end of year	$ 18,191,000	$ 11,144,000	$ 12,802,000

See accompanying notes to the consolidated financial statements.

SUPERCONDUCTOR TECHNOLOGIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 —The Company

Superconductor Technologies Inc. was incorporated in Delaware on May 11, 1987 and maintains its headquarters in Santa Barbara, California. The Company has operated in a single industry segment, the research, development, manufacture and marketing of high−performance filters to service providers and original equipment manufacturers in the mobile wireless communications industry. The Company’s research and development contracts are used as a source of funds for its commercial technology development. The Company’s principal commercial product, the SuperLink Rx®, combines high−temperature superconductors with cryogenic cooling technology to produce a filter with significant advantages over conventional filters. From 1987 to 1997, the Company was engaged primarily in research and development and generated revenues primarily from government research contracts. The Company began full−scale commercial production of the SuperLink Rx® in 1997 and shipped 927 units in 2002, 1,884 units in 2003, and 697 units in 2004.

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, 2002, 2003, and 2004, government related contracts account for 21%, 22% and 27%, respectively, of the Company’s net revenues.

On December 18, 2002, the Company acquired 100 percent of the outstanding shares of Conductus, Inc. (“Conductus”). Conductus was a competing supplier of high−temperature superconducting technology for wireless networks. The results of Conductus’ operations have been included in the 2002 consolidated financial statements for the 13−day period following its acquisition through December 31, 2002 and for the entire year of 2003 and 2004.

Note 2 —Summary of Significant Accounting Policies

Basis of Presentation

In 2004, the Company incurred a net loss of $31,217,000 and negative cash flows from operations of $21,580,000. In response , the Company reduced direct and indirect labor and continued to cut fixed costs. The Company also consolidated its operations in Sunnyvale into its Santa Barbara facility and and accelerated the implementation of a new lower cost wafer deposition process.

The Company completed three financing transactions during 2004. First, in April 2004, the Company temporarily expanded its credit facility and secured a bridge loan to provide interim funding until it could complete a larger public offering. The Company temporarily amended its existing line of credit to increase borrowing capacity from 80% to 95% of eligible accounts receivable. The Company 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. The Company 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, the credit facility reverted back to its original terms.

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

Third, the Company completed a private placement of 15,600,000 shares of common stock at $0.70 per share in the fourth quarter of this year raising net proceeds of $10.1 million.

The principal sources of the Company’s liquidity consists of existing cash balances and funds expected to be generated from future operations. The Company expects its existing cash resources, together with its line of credit and a planned inventory reduction, will be sufficient to fund its planned operations for at least the next twelve months. The Company has more inventory than required for current sales volumes and plans to use its excess inventory as a material source of funding in 2005. The Company believes the key factors to its liquidity in 2005 will be its ability to successfully execute on its plans to increase sales levels and to convert excess inventory to cash. 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.

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 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.

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

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.

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 as other income or expense.

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

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. 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 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 its book value of its net assets , goodwill of the Company is not considered impaired. If the book value of its 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, 2004, the fair value of the Company based on its market capitalization totaled $149.7 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 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. The Company completed such an analysis as of the fourth quarter of 2004 and determined that no write down was necessary.

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, 2004.

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.

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

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,		
	2002	2003	2004
Net loss:			
As reported	$ (19,513,000)	$ (11,345,000)	$ (31,217,000)
Stock−based employee compensation included in net loss	—	—	48,000
Stock−based compensation expense determined under fair value method	(4,056,000)	(5,435,000)	(5,543,000)
Pro forma	$ (23,569,000)	$ (16,780,000)	$ (36,712,000)
Basic and Diluted Loss per Share			
As reported	$ (0.89)	$ (0.18)	$ (0.37)
Stock−based compensation expense determined under fair value method	(0.17)	(0.09)	(0.07)
Pro forma	$ (1.06)	$ (0.27)	$ (0.44)

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, 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 development, manufacture and marketing of high performance products to service providers, systems integrators and original equipment manufacturers in the commercial wireless telecommunications industry. The Company's principal commercial product, the SuperLink Rx® combines high−temperature superconductors with cryogenic cooling technology to produce a filter with significant advantages over conventional filters. The Company currently sells most of our product

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

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. Management views its government research and development contracts as a supplementary source of revenue to fund its development of high temperature superconducting products.

Net commercial product revenues are derived from the following products:

	For the Years Ended December 31,		
	2002	2003	2004
SuperLink Rx	$ 15,195,000	$ 34,544,000	$ 12,599,000
SuperPlex multiplexer	2,262,000	3,434,000	2,995,000
Amplink	—	—	153,000
Other−primarily parts and installation kits	144,000	599,000	1,040,000
Total	$ 17,601,000	$ 38,577,000	$ 16,787,000

Reclassifications

Certain reclassifications have been made to the previously issued quarterly 2004 financial statements to conform to the year end 2004 presentation.

Certain Risks and Uncertainties

During the three year period ended December 31, 2004, the Company sold 3,508 SuperFilter® units, but the Company has continued to incur operating losses. 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. In 2002 U.S. Cellular and ALLTEL accounted for 8% and 84% of the Company's net commercial revenues, respectively, and 19% and 24% of accounts receivable, respectively. In 2003 ALLTEL and Verizon Wireless accounted for 70% and 15% of the Company's net commercial revenues, respectively, and 21% and 25% of accounts receivable, respectively. In 2004 ALLTEL and Verizon Wireless accounted for 63% and 24% of the Company's net commercial revenues, respectively, and 17% and 44% of accounts receivable, respectively. The loss of or reduction in sales, or the inability to collect outstanding accounts receivable, from 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 interim periods or annual periods beginning after June 15, 2005. The new standard will require the Company to recognize compensation costs in our financial statements in an amount equal to the fair value of share−based payments granted to employees and directors. The Company is currently evaluating how it will adopt the standard and evaluating the effect that the adoption of SFAS 123(R) will have on it financial position and results of operations

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs", and 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. The adoption of SFAS No. 151 is not expected 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 March 17, 2005 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. 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.

Advances bear interest at the prime rate (5.25% at December 31, 2004) plus 2.50% subject to a minimum monthly charge. Outstanding amounts under this borrowing facility at December 31, 2004 totaled $938,000 and are repaid upon collection of the underlying receivables sold.

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, the exercise price and the number of shares of the warrants issued to the bridge lender under the 2004 Bridge Loan were adjusted to $1.46 and 633,562, respectively. The Silicon Valley Bank warrant remains unchanged.

Note 4 — Receivable From Stockholders

The Company made a 5−year, interest−free loan of $150,000 to the Company's Chief Executive Officer, in connection with his compensation during 2001 and is included in Other Assets. In March 2005, the Company's Chief Executive Officer retired. In accordance with the existing terms of the Promissory Note which were in effect prior to the adoption of the Sarbanes−Oxley Act of 2002, this loan was forgiven.

Conductus made two loans to its President and Chief Executive Officer, in connection with his compensation and exercise of stock options during 2002 and 2001. The outstanding principal balance of $820,000 plus any accrued interest on his two loans with Conductus are to be paid in full in December 2005 and August 2006. These notes bear interest at 5.87% and 4.99%, are full recourse and are collateralized by 151,761 shares of the Company's common stock and are included in Stockholders' Equity.

Note 5 — 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, 2002, 2003 and 2004.

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, 2002, 2003 and 2004 as follows:

	For the Year Ending December 31		
	2002	2003	2004
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 Ending December 31		
	2002	2003	2004
Loss carryforwards	$ 59,414,000	$ 78,428,000	$ 90,135,000
Capitalized research and development	6,406,000	7,373,000	6,021,000
Warrant charges	2,955,000	36,000	—
Depreciation	1,942,000	3,365,000	2,520,000
Tax credits	3,013,000	4,083,000	4,248,000
Inventory	2,307,000	320,000	2,152,000
Purchase accounting adjustments	883,000	1,146,000	1,162,000
Acquired intellectual property	(1,553,000)	(1,346,000)	(456,000)
Other	991,000	1,171,000	847,000
Less: valuation allowance	(76,358,000)	(94,576,000)	(106,629,000)
	$ —	$ —	$ —

The valuation allowance increased by $34,430,000, $18,218,000 and $12,053,000 in 2002, 2003 and 2004, respectively.

As of December 31, 2004, the Company has net operating loss carryforwards for federal and state income tax purposes of approximately $244.6 million and $119.4 million, respectively, which expire in the years 2005 through 2024. Of these amounts $93.7 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 $2.6 million and $2.4 million, respectively, which expire in the years 2005 through 2024. Of these amounts $972,000 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 $101.6 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 $93.7 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 $51.4 million and are not subject to this limitation.

Note 6 —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.

Convertible Preferred Stock

On September 29, 2000, the Company issued in a private placement 37,500 shares of a newly created Series E Convertible Preferred Stock and warrants to purchase up to an additional 1,044,568 shares of common stock. Proceeds, net of issuance costs, totaled approximately $35,155,000.

During 2001, 3,000 Series E preferred shares were converted into 625,093 shares of common stock and 51,212 shares of common stock were issued in connection with the conversion premium. During 2002 the remaining 34,500 shares were converted into 2,878,351 shares of common stock. The preferred stock carried a 7% conversion premium. The conversion premium was included in the calculation of net loss available to common shareholders over the period it is earned by the preferred stockholder. The associated conversion premium totaled $4,686,000 and was paid with $3.0 million in cash and an eighteen−month $1.7 million subordinated note. The subordinated note carried eight percent interest with interest only payable for the first six months and monthly amortization of principal and interest for the remaining twelve months.

In connection with the sale of the preferred stock, the Company also issued two five−year warrants to purchase shares of common stock at an exercise price of $21.54 per share. The first warrant is for the purchase of 313,370 shares and the second warrant is for the purchase of up to 731,198 additional shares of common stock. Both warrants are currently exercisable and contain “weighted average” antidilution provisions which adjust the warrant exercise price and number of shares in the event the Company sells equity securities at a discount to then prevailing market prices. The amount of the adjustment depends on the size of the below−market transaction and the amount of the discount to the market price. The warrant exercise price cannot be reduced below a minimum of $18.91 as the result of adjustments under this provision. As a result of the issuance of common shares during 2002 and 2003 the exercise price and the number of shares issuable under the warrant was adjusted to $19.28 and 1,166,477, respectively. As a result of the issuance of common shares in November 2004, the exercise price and number of shares issuable under the warrants was adjusted to $18.91 and 1,217,966.

Common Stock

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 the bridge lender under the 2004 Bridge Loan to be adjusted to $1.59 and 581,761, respectively. The exercise price and shares of the warrants issued in connection with the Series E convertible Preferred Stock were not affected.

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 the bridge lender under the 2004 Bridge Loan to be adjusted to $1.46 and 633,562, respectively. The exercise price and shares of the warrants issued in connection with the Series E convertible Preferred Stock were adjusted to $18.91 and 1,217,966, 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.

In March 2002 the Company raised net proceeds of $12,122,000 from the private sale of 3,714,286 shares of common stock at $3.50 per share based on a negotiated discount to market and 5−year warrants to purchase an additional 557,143 shares of common stock exercisable at $5.50 per share. In conjunction with this equity issuance, the Company also issued to the placement agent 5−year warrants to purchase up to 213,571 shares of common stock at an exercise price of $5.50 per share. These warrants became exercisable on September 10, 2002. The common shares issued and underlying the warrants were subsequently registered.

In connection with the acquisition of Conductus, Inc. in December 2002 the Company raised net proceeds of $19,704,000 from the private sale of 21,096,954 shares of common stock at $0.95 per share based on a negotiated discount to market and 5−year warrants to purchase an additional 5,274,240 shares of common stock exercisable at $1.19 per share. The warrants became exercisable on June 17, 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 that 50% of these options vested on January 1, 2004 and 50% will be vested on January 1, 2005.

In connection with the acquisition of Conductus, Inc., each Conductus option holder received an equivalent option to purchase the Company’s common shares on the same terms and conditions. The number of shares of the Company’s common stock was adjusted by multiplying the number of Conductus securities times the exchange ratio of 0.6 and dividing the exercise price by the exchange ratio of 0.6.

At December 31, 2004, 1,097,825 shares of common stock were available for future grants and 9,467,248 options had been granted but not yet exercised. Option activity during the three years ended December 31, 2004 was as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2001	2,550,488	$ 10.67
Granted	851,975	5.005
Assumed	1,673,777	7.610
Canceled	(253,523)	8.311
Exercised	(26,473)	3.128
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	$ 5.453

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

The following table summarizes information concerning currently outstanding and exercisable stock options at December 31, 2004:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable: Number Exercisable	Exercisable: Weighted Average Exercise Price
\$ 0.830 − \$ 2.940	2,636,484	8.626	\$ 1.209	656,568	\$ 1.673
\$ 3.000 − \$ 3.050	1,885,227	8.070	\$ 3.049	1,032,536	\$ 3.049
\$ 3.063 − \$ 5.225	1,585,536	5.828	\$ 4.384	1,407,064	\$ 4.332
\$ 5.290 − \$28.000	3,046,001	6.694	\$ 8.641	1,841,022	\$ 9.934
\$29.500 − \$49.375	314,000	5.289	\$ 32.049	63,999	\$ 37.363
	9,467,248	6.773	\$ 6.047	5,001,189	\$ 12.012

The number of options exercisable and weighted average exercise price at December 31, 2002 and 2003 totaled 2,463,945 and \$8.384 and 3,268,894 and \$8.120, 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, 2002, 2003 and 2004, respectively: dividend yields of zero percent each year; expected volatilities of 65%, 65% and 65−112 %; risk−free interest rates of 3.46%, 3.46% and 3.44−3.99%; and expected life of 4.0, 4.0, and 4.0 years. The weighted average fair value of options granted in 2002, 2003 and 2004 for which the exercise price equals the market price on the grant date was \$2.60, \$1.37 and \$2.02**,** respectively.

Warrants

In connection with the acquisition of Conductus, Inc., each Conductus warrant holder received an equivalent warrant to purchase the Company's common shares on the same terms and conditions. The number of shares of the Company's common stock was adjusted by multiplying the number of Conductus securities times the exchange ratio of 0.6 and dividing the exercise price by the exchange ratio of 0.6. Certain warrants contain call provisions on behalf of the Company.

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

The following is a summary of outstanding warrants at December 31, 2004:

	Common Shares		
	Total and Currently Exercisable	Price per Share	Expiration Date
Warrant related to issuance of Series E Preferred Stock	1,217,966	$ 18.91	September 29, 2005**
Warrants related to issuance of common stock	397,857	5.50	March 10, 2007
	1,406,581	1.19	December 17, 2007*
	1,162,790	2.90	June 24, 2008*
Warrants related to April 2004 Bridge Loans	633,562	1.46	April 28, 2011* **
	100,000	1.85	April 28, 2011*
Warrants assumed in connection with the Conductus, Inc.	72,756	22.383	August 7, 2005
acquisition	1,095,000	4.583	September 27, 2007
	6,000	31.25	September 1, 2007
Total	6,092,512		

* 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.

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 7 —Warrants Issued to U.S. Cellular

In August 1999, the Company entered into a warrant agreement with United States Cellular Corporation ("U.S. Cellular") where the exercise of a warrant to purchase up to 1,000,000 shares of common stock was conditioned upon future product purchases by U.S. Cellular. Under the terms of the warrant, U.S. Cellular vests in the right to purchase one share of common stock at $4 per share for every $25 of SuperFilter systems purchased from the Company. The warrant was immediately exercisable with respect to any vested shares and expired August 27, 2004. For accounting purposes proceeds from sales to U.S. Cellular under this agreement are allocated between commercial product revenue and the estimated value of the warrants vesting using the Black−Scholes option−pricing model. The estimated fair value of the warrants in excess of the related sales, when applicable is recorded in cost of commercial product revenues.

In September 2000, the Company received a $7.8 million non−cancelable purchase order from U.S. Cellular for SuperFilter systems to be shipped over the next nine quarters. In consideration for the purchase order, the Company amended the August 1999 warrant agreement and vested 312,000 warrants to U.S. Cellular. The vested warrants are immediately exercisable, not subject to forfeiture, and U.S. Cellular has no other obligations to the Company.

The estimated fair value of the warrants vesting upon receipt of this order was calculated to be $5,635,000 using the Black−Scholes option−pricing model and has been recorded as a deferred warrant charge in the statement of stockholders' equity. As SuperFilter systems are shipped under this purchase order, the related sales proceeds will be allocated between stockholders' equity and commercial product revenue using the percentage relationship which existed between the fair value of the warrants as recorded in September 2000 and the amount of the non−cancelable purchase order. The fair value of the warrants was calculated utilizing a volatility factor of 85%, risk−free interest rate of 6.01%, and an expected life of 3.92 years. During fiscal 2001 and 2002 sales proceeds of $2,237,000 and $2,280,000, respectively, for shipments pursuant to this purchase order were allocated to the deferred warrant charge and proceeds of $879,000 and $967,000, respectively, were recorded as commercial product revenues under this purchase order.

After the allocation of sales proceeds under the $7.8 million purchase order to the related warrants, the estimated cost of providing products under the purchase order exceeded related revenue by $5.3 million. The resulting loss was reflected in the results of operations for the year ended December 31, 2000. During the years ending December 31, 2001 and 2002, $2,243,000 and $1,998,000, respectively, of this reserve was reversed against the cost of product delivered under this purchase order.

During the fourth quarter of 2002, deliveries under the $7.8 million purchase order were completed. For accounting purposes, proceeds from subsequent sales to U.S. Cellular under this agreement are again being allocated between commercial product revenue and the estimated value of the warrants vesting using the Black−Scholes option−pricing model. For subsequent product sales, in the fourth quarter of 2002, the year ended December 31, 2003 and December 31, 2004, U.S. Cellular vested in the right to exercise the warrant and purchase a total of 22,540, 38,088 and 7,024 shares of common stock, respectively, and sales proceeds allocated to warrants vesting in 2002, 2003 and 2004 totaled $3,000, $90,000 and less than $1,000, respectively.

This warrant expired on August 27, 2004.

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.

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

Note 9 —Commitments and Contingencies

Operating Leases

The Company leases its offices and production facilities under non−cancelable operating leases that expire at various times over the next ten years. Generally leases contain escalation clauses for increases in annual renewal options and require the Company to pay utilities, insurance, taxes and other operating expenses.

For the years ended December 31, 2002, 2003, and 2004, rent expense was $999,000, $1,230,000 and $1,262,000, respectively.

Capital Leases

The Company leases certain property and equipment under capital lease arrangements that expire at various dates through 2007. The leases bear interest at various rates ranging from 8.56% to 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 $294,000 in 2002, $572,000 in 2003 and $429,000 in 2004. 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
2005	$ 170,000	$ 2,400,000	$ 52,000
2006	150,000	1,406,000	22,000
2007	150,000	1,234,000	15,000
2008	150,000	1,271,000	—
2009	150,000	1,315,000	—
Thereafter	1,500,000	2,653,000	—
Total payments	$ 2,270,000	$ 10,279,000	89,000
Less: amount representing interest			(13,000)
Present value of minimum lease			76,000
Less current portion			(43,000)
Long term portion			$ 33,000

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, a liability totaling $279,000 was recognized representing the present value of the remainder of the lease commitment was recorded. 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, 2004 the remaining commitments on these operating leases totaled $1,386,000 and are included in the above commitment table. At December 31, 2004, the present value of the remaining liability related to the abandoned leases totaled $1,336,000. This amount is included in accrued liabilities.

Note 10 — Contractual Guarantees and Indemnities

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.

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. A description of significant contractual guarantees and indemnities existing as of December 31, 2004 is included below:

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.

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

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.

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.

Note 11 — Legal Proceedings

Patent Litigation

The Company is engaged in a patent dispute with ISCO International, Inc. relating to U.S. Patent No. 6,263,215 entitled "Cryoelectronically Cooled Receiver Front End for Mobile Radio Systems." ISCO filed a complaint on July 17, 2001 in the United States District Court for the District of Delaware against us and our wholly−owned subsidiary, Conductus, Inc. The ISCO complaint alleged that our SuperFilter product and Conductus' ClearSite®product infringe ISCO's patent. The matter went to trial on March 17, 2003.

On April 3, 2003, the jury returned a unanimous verdict that our SuperFilter III product does not infringe the patent in question, and that ISCO's patent is invalid and unenforceable. The jury also awarded us $3.8 million in compensatory damages based upon a finding that ISCO engaged in unfair competition and acted in bad faith by issuing press releases and contacting our customers asserting rights under this patent.

On April 17, 2003, the Company filed a Motion for Attorneys' Fees and Disbursements, in which it asked the court to award it it's attorneys' fees and other litigation expenses. On the same date, ISCO filed a motion, asking the court to overturn the verdict and grant a new trial. In August 2003, the court rejected ISCO's request to overturn the jury's verdict that the patent is invalid and not infringed by the SuperFilter III product, and accepted the jury's verdict that the patent is unenforceable because of inequitable conduct committed by one of the alleged inventors. ISCO subsequently filed a notice of appeal as to this portion of the court's decision. The court overturned the jury's verdict of unfair competition and bad faith on the part of ISCO and the related $3.8 million compensatory damage award to us, and also denied our request for reimbursement of our legal fees associated with the case. The Company filed a notice of appeal as to this portion of the court's decision. Litigation expenses on the ISCO matter totaled $3.2 million, $4.8 million and $545,000 for the years ended December 31, 2002, 2003 and 2004.

On February 3, 2005, the Appellate Court reaffirmed the unanimous jury verdict that ISCO's US patent is invalid and unenforceable. The Appellate Court also denied the Company's request to reinstate the jury's $3.8 million damage award to us for unfair competition and bad faith on the part of ISCO. The trial judge had overruled the jury's finding on this point, and the Company appealed that portion of the judge's ruling. The Company believes the decision of the Appellate Court ends this matter and does not expect any further legal action related to it.

Class Action Lawsuits

The Company and certain of it's officers were named as a defendant in several substantially identical class action lawsuits filed in the United States District Court for the Central District of California in April 2004. The cases were consolidated in August 2004, and the plaintiffs filed an amended consolidated complaint in October 2004. The plaintiffs allege securities law violations by us and certain of our officers and directors under Rule 10b−5 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended. The complaint was filed on behalf of a purported class of people who purchased our stock during the period between January 9, 2004 and March 1, 2004 and seeks unspecified damages. The plaintiffs base their allegations primarily on the fact that the Company did not achieve its forecasted revenue guidance of $10 to $13 million for the first quarter of 2004. Litigation expenses on this matter totaled $441,000 for the year ended December 31, 2004.

The Company reached an agreement in principle with the lead plaintiffs appointed by the District Court to settle this matter. Under the terms of the proposed settlement, the Company's insurers will pay $4.0 million into a settlement fund, and the Company will pay up to $50,000 of the costs of providing notice of the settlement to settlement class members. The agreement in principle remains subject to completion of mutually acceptable written settlement documents, approval by the Company's Board of Directors, and approval by the District Court. The Company recorded a liability in its December 31, 2004 consolidated financial statements 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 was probable, a receivable was also recorded for that amount. Accordingly, there was a $50,000 impact to the statement of operations.

Note 12 — Earnings Per Share

The computation of per share amounts for 2002, 2003 and 2004 is based on the average number of common shares outstanding for the period. Options and warrants to purchase 14,592,194, 14,238,854 and 15,559,760 shares of common stock during 2002, 2003, and 2004 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 it's 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 relating to the write−off of these patents and purchased technology since they will not be recovered from future cash flows.

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

A summary of the restructuring and impairment charges for the year ended December 31, 2004 is as follows:

	Restructuring Charges	Impairment Charges	Total
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
Restructuring expenses and impairment charges	$ 2,940,000	$ 1,188,000	$ 4,128,000

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

Balance Sheet Data:

	December 31, 2003	December 31, 2004
Accounts receivable:		
Accounts receivable−trade	$ 6,766,000	$ 1,043,000
U.S. government accounts receivable−billed	2,107,000	468,000
Less: allowance for doubtful accounts	(64,000)	(77,000)
	$ 8,809,000	$ 1,434,000

	December 31, 2003	December 31, 2004
Inventories:		
Raw materials	$ 1,941,000	$ 3,954,000
Work−in−process	4,803,000	3,441,000
Finished goods	2,861,000	7,334,000
Less inventory reserve	(803,000)	(5,402,000)
	$ 8,802,000	$ 9,327,000

	December 31, 2003	December 31, 2004
Property and Equipment:		
Equipment	$ 21,274,000	$ 18,805,000
Leasehold improvements	5,891,000	6,236,000
Furniture and fixtures	430,000	451,000
	27,595,000	25,492,000
Less: accumulated depreciation and amortization	(15,061,000)	(15,189,000)
	$ 12,534,000	$ 10,303,000

At December 31, 2003 and December 31, 2004, equipment includes $237,000 of assets financed under capital lease arrangements, net of $91,000 and $163,000 of accumulated amortization, respectively. Depreciation expense amounted to $1,609,000, $2,413,000 and $2,744,000, respectively, in 2002, 2003 and 2004. In connection with a restructuring of the Company's operations and other abandonments $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 relating to these items are expected to total $2.7 million in 2005 and $2.3 million, $2.0 million, $1.4 million and $1.0 million in each of the years 2006, 2007, 2008 and 2009, respectively.

	December 31, 2003	December 31, 2004
Patents and Licenses:		
Patents pending	$ 848,000	$ 433,000
Patents issued	1,182,000	899,000
Less accumulated amortization	(332,000)	(203,000)
Net patents issued	850,000	696,000
Licenses	3,310,000	563,000
Less accumulated amortization	(2,322,000)	(33,000)
Net licenses	988,000	530,000
Purchased technology	3,200,000	1,706,000
Less accumulated amortization	(519,000)	(532,000)
Net purchased technology	2,681,000	1,174,000
	$ 5,367,000	$ 2,833,000

Amortization expense related to these items totaled $293,000, $805,000 and $719,000, respectively in 2002, 2003 and 2004. In connection with a restructuring of the Company's operations and abandonments, $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. Amortization expenses related to these items are expected to total $355,000 in 2005 and approximately $350,000 in each of the years 2006, 2007, 2008 and 2009.

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

	December 31, 2003	December 31, 2004
Accrued Expenses and Other Long Term Liabilities:		
Compensation related	$ 2,153,000	$ 1,285,000
Warranty reserve	494,000	419,000
Unfavorable lease costs	823,000	—
Lease abandonment costs	1,329,000	1,336,000
Product line exit costs	913,000	885,000
Severance costs	285,000	36,000
Other	723,000	1,393,000
	6,720,000	5,354,000
Less current portion	(4,832,000)	(4,601,000)
Long term portion	$ 1,888,000	$ 753,000

	For the Year Ended,	
	December 31, 2003	December 31, 2004
Warranty Reserve Activity:		
Beginning balance	$ 351,000	$ 494,000
Additions	261,000	157,000
Deductions	(118,000)	(159,000)
Change in estimate relating to previous warranty accruals	—	(73,000)
Ending balance	$ 494,000	$ 419,000
Unfavorable Lease Costs:		
Beginning balance	$ 1,140,000	$ 823,000
Additions	—	—
Deductions	(317,000)	(265,000)
Transfer to lease abandonment costs	—	(558,000)
Ending balance	$ 823,000	$ —
Lease Abandonment Costs:		
Beginning balance	$ 1,995,000	$ 1,329,000
Additions	—	279,000
Transfers from unfavorable lease costs	—	558,000
Deductions	(666,000)	(830,000)
Ending balance	$ 1,329,000	$ 1,336,000
Product Line Exit Costs:		
Beginning balance	$ 1,042,000	$ 913,000
Additions	—	—
Deductions	(129,000)	(73,000)
Change in estimate relating to previous exit costs accrual	—	45,000
Ending balance	$ 913,000	$ 885,000

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

	For the Year Ended,	
	December 31, 2003	December 31, 2004
Severance Costs:		
Beginning balance	$ 1,600,000	$ 285,000
Additions	—	826,000
Deductions	(1,315,000)	(1,075,000)
Ending balance	$ 285,000	$ 36,000

Supplemental Cash Flow Information:

	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2004
Cash paid for interest	$ 145,000	$ 471,000	$ 443,000
Non−cash investing and financing activities:			
Unpaid offering expenses	—	—	792,000
Insurance settlement receivable	—	—	4,000,000
Legal settlement liability	—	—	4,000,000
Conversion of preferred shares into common shares	34,500,000	—	—
Issuance of note for payment of preferred stock conversion premium	1,686,000	—	—
Non cash items related to the acquisition of Conductus, Inc.			
Estimated fair value of tangible assets acquired	3,625,000	—	—
Goodwill and identifiable intangibles assets acquired	24,007,000	—	—
Liabilities assumed or created	10,511,000	—	—
Value of common stock issued and option and warrants assumed	16,691,000	—	—

SUPERCONDUCTOR TECHNOLOGIES INC.

Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2004				
Net revenues	$ 5,444,000	$ 6,312,000	$ 7,299,000	$ 3,949,000
Loss from operations(1)(2)	(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
2003				
Net revenues	$ 7,580,000	$ 11,263,000	$ 14,156,000	$ 16,395,000
(Loss) income from operations	(8,295,000)	(2,974,000)	(759,000)	1,010,000
Net (loss) income	(8,343,000)	(3,061,000)	(851,000)	910,000
Basic (loss) income per common share	$ (0.14)	$ (0.05)	$ (0.01)	$ 0.01
Weighted average number of shares outstanding	59,823,553	60,048,444	64,939,896	65,702,315
Diluted (loss) income per common share	$ (0.14)	$ (0.05)	$ (0.01)	$ 0.01
Weighted average number of shares outstanding	59,823,553	60,048,444	64,939,896	72,652,146

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

(2) 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, 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
Year Ended December 31, 2002					
Allowance for Uncollectible Accounts	24,000	12,000	27,000	(5,000)	58,000
Reserve for Inventory Obsolescence	617,000	567,0000	—	(534,000)	650,000
Reserve for Warranty	242,000	340,000	—	(231,000)	351,000
Deferred Tax Asset Valuation Allowance	41,928,000	34,430,000	—	—	76,358,000

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 16th day of March 2005.

SUPERCONDUCTOR TECHNOLOGIES INC.

By: /s/ M. Peter Thomas

M. Peter Thomas
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/ M. Peter Thomas M. Peter Thomas	President, Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2005
/s/ Martin S. McDermut Martin S. McDermut	Senior Vice President, Chief Financial Officer (Principal Financial Officer)	March 16, 2005
/s/ William J. Buchanan William J. Buchanan	Controller (Principal Accounting Officer)	March 16, 2005
/s/ Robert P. Caren Robert P. Caren	Director	March 16, 2005
/s/ John F. Carlson John F. Carlson	Director	March 16, 2005
/s/ Dennis J. Horowitz Dennis J. Horowitz	Director	March 16, 2005

Signature	Title	Date
/s/ Martin A. Kaplan Martin A. Kaplan	Director	March 16, 2005
/s/ John D. Lockton John D. Lockton	Chairman of the Board	March 16, 2005
/s/ Charles E. Shalvoy Charles E. Shalvoy	Director	March 16, 2005

Exhibit 10.46

Superconductor Technologies Inc.

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is made and entered into as of February 14, 2005, by and between Superconductor Technologies Inc., a Delaware corporation (the "Company"), and Jeffrey A. Quiram, an individual (the "Executive"), with reference to the following facts:

A. The Company, headquartered in Santa Barbara, California, is the global leader in developing, manufacturing, and marketing superconducting products for wireless networks.

B. Executive is a senior global executive with broad general management and sales experience in the telecommunications industry.

C. The Company wishes to hire Executive for the position of President and Chief Executive Officer, and Executive wishes to be hired for such position, on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, based on the above premises and in consideration of the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Employment with the Company.

1.1 Position and Duties. Subject to the terms set forth herein, the Company agrees to employ Executive as President and Chief Executive Officer, and Executive hereby accepts such employment. Executive shall serve in an executive capacity and shall perform such duties as are customarily associated with his position, consistent with the Restated Bylaws of the Company and as reasonably required by the Company's Board of Directors (the "Board"). The Company will also appoint Executive to the Board and any executive committee thereof that may exist from time to time. Executive will report solely and directly to the Board, and all other employees will report solely and directly to the Executive or his designees. Notwithstanding the foregoing, the Board members will have unrestricted access to communicate on a confidential basis with any and all employees as and when they deem necessary or appropriate in the discharge of their fiduciary duties.

1.2 Full Time and Best Efforts. Executive will perform his duties faithfully and to the best of his ability and will devote his full business time and effort to the performance of his duties hereunder. Executive will not engage in any other employment or business activities for any direct or indirect remuneration that would be directly harmful or detrimental to, or that may compete with, the business and affairs of the Company, or that would interfere with his duties hereunder. Executive acknowledges that frequent travel may be necessary in carrying out his duties hereunder

1.3 Transition. Executive will commence services to the Company on February 17, 2005, but the Company will continue to employ M. Peter Thomas as President and Chief Executive Officer until the completion and filing with the Securities and Exchange Commission of the Company's Annual Report on Form 10−K for the year ended December 31, 2004. The Company will appoint Executive to the position of President and Chief Executive Officer immediately after the filing of the Annual Report on Form 10−K. Executive will use the

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interim period to work with Mr. Thomas to prepare for and effect a smooth transition of Mr. Thomas' responsibilities to Executive.

1.4 Company Policies. The employment relationship between the parties shall be governed by the general employment policies and practices of the Company, including but not limited to those relating to protection of confidential information and assignment of inventions, except that when the terms of this Agreement differ from or are in conflict with the Company's general employment policies or practices, this Agreement shall control. Subject to the foregoing, Executive will sign within ten (10) days the Company's standard Employee Proprietary Information Agreement.

2. At−Will Employment. Executive's employment with the Company is "at−will" and may be terminated at any time without cause by either party upon thirty (30) days prior written notice; *provided, however*, that the Company is not required to give notice of a termination for Cause. Termination of the employment relationship is the right of each party and will not constitute a breach of this Agreement. No provision of this Agreement shall be construed as conferring upon Executive a right to continue as an employee or executive of the Company or any subsidiary or affiliated entity. In the

event of termination, Executive will voluntarily and immediately resign from the Board and any similar position with any subsidiary or affiliate.

3. Compensation.

3.1 Base Salary. The Company will compensate Executive for services rendered hereunder at the rate of Three Hundred Thousand Dollars ($300,000) per year payable in accordance with the Company's normal payroll practices and subject to payroll deductions as may be necessary or customary for the Company's salaried employees. The Compensation Committee of the Board (the "Compensation Committee") will review, and in its sole discretion may increase, the Base Salary each year.

3.2 Performance Bonus. The Company will pay Executive an annual performance bonus of up to One Hundred Percent (100%) of his Base Salary based upon achievement of performance goals. The Compensation Committee and Executive will work together in good faith on an annual basis to develop mutually acceptable performance goals for the coming year.

3.3 Equity Incentive Compensation.

3.3.1 Option Grants. The Company will grant Executive the following equity−based compensation awards under its 2003 Equity Incentive Plan:

3.3.1.1 A non−qualified stock option to purchase One Million Two Hundred Thousand (1,200,000) shares of common stock with a per share exercise price equal to the fair market value of the Company's common stock on the date the Board approves this Agreement (the "Start Date Exercise Price"); and

3.3.1.2 A non−qualified stock option to purchase an additional One Million Two Hundred Thousand (1,200,000) shares of common stock (subject to increase in accordance with Section 3.3.3) with a per share exercise price equal to the fair market value of the Company's common stock on the date the stockholders approve an increase in the number of shares of stock authorized for grants under the 2003 Equity Incentive Plan (the "Approval Date Exercise Price").

3.3.2 Other Terms. All of the options granted under this Section 3.3 will (a) have a term of ten (10) years, (b) vest 25% on the first anniversary of Executive's start date with the Company and 75% in 36 equal monthly installments thereafter, (c) have such other terms as are contained in the Company's standard form of stock option agreement presently in use and not inconsistent with the terms of this either this Agreement or the stock option agreement entered into by Executive and the Company and executed contemporaneously herewith (the "Option Agreement") and (d) be subject to all the terms and conditions of the Company's 2003 Equity Incentive Plan. The Compensation Committee is considering other performance−based criteria for earlier accelerated vesting of employee stock options. The Compensation Committee may, in its sole discretion, include such criteria for accelerated vesting in the foregoing stock options.

3.3.3 Stockholder Approval of Plan Increase. The Company will submit a request to its stockholders at the upcoming 2005 annual meeting to increase the number of shares of stock authorized for grants under the 2003 Equity Incentive Plan. If the stockholders decline to approve the increase, the Company will grant options to Executive under the 2003 Equity Plan (priced with a per share exercise price equal to the fair market value of the Company's common stock on the date the stockholders decline to approve the increase) as and when additional options become available under the plan as a result of the expiration and forfeiture of other stock options outstanding under the plan until is has fulfilled its obligations to Executive under Section 3.3.1.2. The Company will not grant any further stock options under the 2003 Equity Incentive Plan until it has fulfilled its obligations to Executive under Section 3.3.1.2.

3.3.4 Impact of Interim Stock Price Increase. If the Approval Date Exercise Price exceeds the Grant Date Exercise Price, the Company will compensate Executive for the increase by granting him another non−qualified stock option to purchase at the Approval Date Exercise Price additional shares of common stock. The number of shares for such additional stock option will be determined based on a linear scale of 0 shares to 250,000 shares as the difference in exercise prices increases from $0 to $1.00. For example, if the Grant Date Exercise Price is $1.05 and the Approval Date Exercise Price is exercise price $1.35, then the number of shares would equal ($1.35 − $1.05)/$1.00 X 250,000, or 75,000 shares. Under this formula, the maximum number is 250,000 shares regardless of any further increase in the exercise price between the two dates.

4. Benefits.

4.1 Commuting and Travel Expenses. The Company understands that Executive presently resides in Minnesota and has not committed to relocate his family to Santa Barbara, California. However, Executive has committed to perform services under this Agreement at the Company's headquarters in Santa Barbara and will effectively commute to work. Executive will devote sufficient time working at the Company's headquarters in Santa Barbara and meeting with customers at their offices, in each case to the extent required to perform the duties of his office. The Company will (a) pay for Executive's reasonable travel expenses commuting to/from his home in Minnesota (based on the Company's travel policy guidelines) and (b) lease a suitable apartment for Executive within ten (10) miles of its Santa Barbara headquarters.

4.2 Automobile Lease. The Company will lease an automobile for Executive's use in Santa Barbara consistent with past practice for the Company's Chief Executive Officer.

4.3 General Programs. Executive shall be entitled to participate in the employee benefit plans and programs of the Company, if any, to the extent that his position, tenure, salary, age, health and other qualifications make him eligible to participate in such plans or programs, subject to the rules and regulations applicable thereto. Subject to Section 10.7.4, the Company reserves the right to cancel or change the benefit plans and programs it offers to its employees at any time.

4.4 Special Reimbursement for Taxes Resulting from Payment of Commuting Expenses. Executive shall be entitled to receive an additional payment hereunder (the "Tax Indemnity Payment") in an amount equal to any increase in Executive's income and payroll taxes attributable to any commuting, automobile and living accommodation payments or expenses paid to or on behalf of Executive, including an additional amount equal to any additional income and payroll taxes which are attributable to or resulting from the Tax Indemnity Payment, such that Executive retains an amount of the Tax Indemnity Payment equal to the increase in income and payroll taxes attributable to the payment or reimbursement of the commuting, automobile and living accommodation expenses to or on behalf of the Executive.

5. Business Expenses. The Company shall reimburse Executive for reasonable travel, entertainment or other expenses incurred by Executive in the furtherance of or in connection with the performance of Executive's duties hereunder, in accordance with the Company's expense reimbursement policy as in effect from time to time.

6. Termination Before a Change of Control.

6.1 Involuntary Termination. If Executive's employment with the Company is terminated before a Change of Control due to an Involuntary Termination, then Executive shall be entitled to receive the following:

6.1.1 a lump sum severance payment equal to one (1.0) times Executive's Base Salary as in effect on the date of the Involuntary Termination,

6.1.2 any Bonus for the twelve (12) month period following Executive's termination which had been previously authorized,

6.1.3 twelve (12) months of coverage for Executive and his spouse/dependents under group health, life or other similar insurance plans substantially comparable to the group health, life and other similar insurance plans in which Executive and his spouse/dependents participated on the date of such termination,

6.1.4 accelerated vesting of all stock options which would have otherwise vested solely by the passage of time during the twelve (12) months after the date of termination if the Involuntary Termination had not occurred (i.e. excluding any vesting dependent on achieving performance objectives); and

6.1.5 six months from the date of termination to exercise any vested stock options, including any stock options vesting by virtue of the accelerated vesting provisions of Section 6.1.4; *provided, however*, that such options will automatically expire thirty (30) days following the date that Executive becomes a director, employee or consultant of any Competing Company.

6.2 Other Termination. If Executive's employment is terminated before a Change of Control for any reason other than an Involuntary Termination, then Executive shall not be entitled to receive severance or other benefits pursuant to this Agreement, but may be eligible for those benefits (if any) as may then be established under the Company's severance and benefits plans and policies existing at the time of such termination.

6.3 Mitigation. Except as may be expressly provided elsewhere in this Agreement, the Executive shall not be required to mitigate the amount of any payment or benefit contemplated by this Section 6 (whether by seeking new employment or in any other manner). No such payment shall be reduced by earnings that the Executive may receive from any other source.

7. Change of Control.

7.1 In the event of a Change of Control, Executive shall be entitled to receive the following in lieu of any payments or other benefits under Section 6 (Termination Before Change of Control) and regardless of whether Executive's employment is continued or terminated (except as expressly provided below in Section 7.1.5):

7.1.1 a lump sum payment equal to two (2.0) times the Executive's Base Salary as in effect on the date of the Change of Control,

7.1.2 any Bonus for the twelve (12) month period following Executive's termination which had been previously authorized,

7.1.3 twenty−four (24) months of coverage for Executive and his spouse/dependents under group health, life or other similar insurance plans substantially comparable to the group health, life and other similar insurance plans in which Executive and his spouse/dependents participated on the date of such termination,

7.1.4 accelerated vesting of fifty percent (50%) of Executive's unvested stock options;

7.1.5 accelerated vesting of the remaining fifty percent (50%) of Executive's options if and only if Executive does not resign during the six month period following the date of the Change of Control; and

7.1.6 five years from the date of the Change of Control to exercise any vested stock options, including any stock options vesting by virtue of the accelerated vesting provisions of Section 7.1.4 and 7.1.5; *provided, however*, that such options will automatically expire thirty (30) days following the date that Executive becomes a director, employee or consultant of any Competing Company.

Notwithstanding Section 2, Executive may not terminate his employment resign other than pursuant to an Involuntary Termination under Section 10.7 during the six month period following a Change of Control; provided that purposes of the foregoing, Involuntary Termination shall not include Section 10.7.1.

For purposes of this Section, a termination of Executive' employment prior to a Change of Control shall be deemed to have occurred after or in connection with such Change of Control if Executive reasonably demonstrates that such termination constitutes an Involuntary Termination and that the circumstance(s) or event(s) which constitute such Involuntary Termination occurred (a) at the request of an individual, entity or group who has entered into an agreement with the Company, the consummation of which will constitute a Change of Control (or who has taken other steps reasonably calculated to effect a Change of Control) or (b) otherwise in connection with, as a result of or in anticipation of a Change of Control.

7.2 Modified Reduction. Notwithstanding any other provisions of this Agreement to the contrary, in the event that any payments or benefits received or to be received by Executive in connection with Executive's employment with the Company (or termination thereof) would subject Executive to the excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Excise Tax"), and if the net after−tax amount (taking into account all applicable taxes payable by Executive, including without limitation any Excise Tax) that Executive would receive with respect to such payments or benefits does not exceed the net after−tax amount Executive would receive if the amount of such payments and benefits were reduced to the maximum amount which could otherwise be payable to Executive without the imposition of the Excise Tax, then, only the extent necessary to eliminate the imposition of the Excise Tax, such payments and benefits shall be reduced, in the order and as to the type specified by Executive.

8. Condition to Severances Payments. All severance payments and other benefits provided under Sections 6 and 7 are conditioned on Executive's continuing compliance with this Agreement and the Company's policies and Executive's execution of a release of claims and covenant not to sue substantially in the form provided in Exhibit A upon termination of employment .

9. Insurance and Indemnification. The Company will keep in effect during Executive's employment and for six (6) years thereafter director and officer's liability insurance comparable in amount and scope to its present policy covering current and former directors and officers. The Company and Executive will also concurrently herewith execute an Indemnification Agreement identical in form and substance to the Indemnification Agreement currently in effect for the Company's other directors and Executive Officers.

10. Definitions.

10.1 Base Salary. "Base Salary" means Executive's annualized base salary under Section 3.1 and as may be subsequently adjusted upward for increases.

10.2 Cause. "Cause" means the occurrence of anyone or more of the following:

10.2.1 Executive's conviction by, or entry of a plea of guilty or nolo contendere in, a court of final jurisdiction for any crime which constitutes a felony in the jurisdiction involved;

10.2.2 Executive's misappropriation of funds or commission of an act of fraud, whether prior or subsequent to the date hereof, upon the Company;

10.2.3 gross negligence by Executive in the scope of Executive's services to the Company resulting in economic damage to the Company; or

10.2.4 a failure of Executive to follow the lawful mandates of the Board.

Notwithstanding the foregoing, Executive shall not be deemed to have been terminated for Cause without (a) reasonable notice to Executive setting forth the reasons for Company's intention to terminate for Cause and (b) an opportunity for Executive to be heard (with counsel) before the Board.

10.3 Change of Control. "Change of Control" means the occurrence of any of the following events on or after the effective date of this Agreement:

10.3.1 When any "person," as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, is or becomes the "beneficial owner" (as defined in Rule 13d−3 under the Securities Exchange Act of 1934, as amended), directly or indirectly, of securities of the Company representing thirty percent (30%) or more of the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors, *other* than the following persons:

10.3.1.1 the Company,

10.3.1.2 a subsidiary of the Company,

10.3.1.3 a Company employee benefit plan, including any trustee of such plan acting as trustee, or

10.3.1.4 any person who, as of the effective date of this Agreement, has publicly disclosed in filings with the Securities and Exchange Commission the beneficial ownership of more than 5% of the combined voting power of the Company's outstanding securities entitled to vote generally in the election of directors;

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

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

10.3.4 The sale, transfer or other disposition of all or substantially all of the Company's assets; or

10.3.5 The stockholders of the Company approve the dissolution or liquidation of the Company.

10.4 Competing Company. "Competing Company" means any company engaged in the development, manufacture or sale of cryogenic receiver front−end devices for communications systems.

10.5 Disability. "Disability" means, on or after the effective date of this Agreement, the Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

10.6 "Executive Officer" shall have the meaning set forth in Rule 3b−7 under the Securities Exchange Act of 1934, as amended.

10.7 Involuntary Termination. "Involuntary Termination" means the occurrence of anyone or more of the following:

10.7.1 without Executive's express written consent, a material reduction of Executive's duties or responsibilities relative to Executive's duties or responsibilities in effect immediately prior to such reduction, or the removal of Executive from such duties and responsibilities, unless Executive is provided with comparable duties and responsibilities over the same business unit, or a change in the Executive's reporting obligations or the employees reporting to Executive;

10.7.2 without Executive's express written consent, a material reduction of the facilities and perquisites (including office space and location) available to Executive immediately prior to such reduction;

10.7.3 without Executive's express written consent, a reduction by the Company of Executive's Base Salary in effect immediately prior to such reduction, unless it occurs in connection with a restructuring or other cost−cutting measure as evidenced by a comparable reduction in the base salary of all Executive Officers, or a failure to make any travel or living accommodation payments required hereunder after notice of default and a reasonable opportunity to cure such default;

10.7.4 a material reduction by the Company in the kind or level of employee benefits to which the Executive is entitled immediately prior to such reduction with the result that the Executive's overall benefits package is significantly reduced;

10.7.5 any purported termination of the Executive by the Company which is not effected for Cause or for which the grounds relied upon are not valid;

10.7.6 the death or Disability of the Executive, or

10.7.7 the failure of the Company to obtain the assumption of this Agreement by any successors contemplated in Section 12.

11. Advice of Counsel. Executive acknowledges that he has been represented by counsel in the negotiation of this Agreement and is fully aware of his rights and obligations under this Agreement.

12. Successors.

12.1 Company's Successors. Any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets shall assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company," shall include any successor to the Company's business and/or assets which executes and delivers the assumption agreement described in this Section 12.1 or which becomes bound by the terms of this Agreement by operation of law.

12.2 Executive's Successors. Without the written consent of the Company, Executive shall not assign or transfer this Agreement or any right or obligation under this Agreement to any other person or entity. Notwithstanding the foregoing, the terms of this Agreement and all rights of Executive hereunder shall inure to the benefit of, and be enforceable by, Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

13. Notice Clause.

13.1 Manner. Any notice hereby required or permitted to be given shall be sufficiently given if in writing and upon mailing by registered or certified mail, postage prepaid, to either party at the address of such party or such other address as shall have been designated by written notice by such party to the other party .

13.2 Effectiveness. Any notice or other communication required or permitted to be given under this Agreement will be deemed given on the day when delivered in person, or the business day after the day on which such notice was mailed in accordance with Section 13.1.

14. Governing Law. This Agreement shall be governed by and construed in accordance with the internal substantive laws, but not the choice of law rules, of the state of California.

15. Arbitration. Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration in Los Angeles in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Discovery shall be permitted to the same extent as in a proceeding under the Federal Rules of Civil Procedure, including (without limitation) such discovery as is specifically authorized by section 1283.05 of the California Code of Civil Procedure, without need of prior leave of the arbitrator under section 1283.05(e) of such Code. Judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The Company shall bear the expense of the arbitrator.

16. Attorneys' Fees for Executive. The Company will reimburse Executive for up to $5,000 of legal fees and costs incurred by Executive in connection with the negotiation of this Agreement. Further, if any litigation or arbitration is commenced (including any proceedings in a bankruptcy court) between the parties concerning any provision of this Agreement and Executive is the prevailing party in such proceeding, the Executive shall be entitled, in addition to such other relief as may be granted, to recover his attorneys' reasonable fees and costs incurred by reason of such litigation or arbitration. The prevailing party shall be determined by the court or arbitrator based upon an assessment of which party's major arguments or positions taken in the proceedings could fairly be said to have prevailed over the other party's major arguments or positions on major disputed issues.

17. Severability. The invalidity or unenforceability of any provision of this Agreement, or any terms hereof, shall not affect the validity or enforceability of any other provision or term of this Agreement.

18. Confidentiality and Trading Restrictions. The parties agree the existence and negotiation of this Agreement, and any non−public information exchanged in connection therewith, are confidential (collectively, "Confidential Information"). They will not disclose any Confidential Information except as provided herein. Either party may disclose Confidential Information to its employees and advisors who are required to have the information for the purpose of providing assistance in the negotiations. The Company may disclose the existence of the negotiations and this Agreement at such time as it determines public disclosure is required under the applicable securities laws. The parties will not use any Confidential Information except for the decision whether to enter into an employment relationship and negotiating the terms of employment. Executive will refrain from trading in the Company's securities until 72 hours after public disclosure by Company of this Agreement. Thereafter, Executive may trade in the Company's securities only in compliance with the Company's Insider Trading Policy.

19. Integration. This Agreement and any other agreement referred to herein or executed contemporaneously herewith represent the entire agreement and understanding between the parties as to the subject matter herein and supersedes all prior or contemporaneous agreements whether written or oral. No waiver, alteration, or modification of any of the provisions of this Agreement shall be binding unless in writing and signed by duly authorized representatives of the parties hereto.

20. Taxes. All payments made pursuant to this Agreement shall be subject to withholding of applicable income and employment taxes.

21. Counterparts and Facsimile. This Agreement may be executed in counterparts and by facsimile.

*** [NEXT PAGE IS SIGNATURE PAGE] ***

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.
Jeffrey A. Quiram	John D. Lockton, Chairman of the Board

EXHIBIT A

Form of Release of Claims and Covenant Not To Sue

In consideration of the payments and other benefits that Superconductor Technologies Inc. (the "Company") is providing to ______("Executive") under the Employment Agreement entered into by and between Executive and the Company, dated February ___, 2005, the Executive, on his/her own behalf and on behalf of Executive's representatives, agents, heirs and assigns, waives, releases, discharges and promises never to assert any and all claims, demands, actions, costs, rights, liabilities, damages or obligations of every kind and nature, whether known or unknown, suspected or unsuspected that Executive ever had, now have or might have as of the date of Executive's termination of employment with the Company against the Company or its predecessors, parent, affiliates, subsidiaries, stockholders, owners, directors, officers, employees, agents, attorneys, insurers, successors, or assigns (including all such persons or entities that have a current and/or former relationship with the Company) (the "Released Parties") for any claims arising from or related to Executive's employment with the Company, its parent or any of its affiliates and subsidiaries and the termination of that employment.

These released claims also specifically include, but are not limited to, any claims arising under any federal, state and local statutory or common law, such as (as amended and as applicable) Title VII of the Civil Rights Act, the Age Discrimination in Employment Act, the Americans With Disabilities Act, the Employee Retirement Income Security Act, the Family Medical Leave Act, the Equal Pay Act, the Fair Labor Standards Act, the Industrial Welfare Commission's Orders, the California Fair Employment and Housing Act, the California Constitution, the California Government Code, the California Labor Code and any other federal, state or local constitution, law, regulation or ordinance governing the terms and conditions of employment or the termination of employment, and the law of contract and tort and any claim for attorneys' fees; provided, however, that Executive does not release or discharge the Released Parties from (i) any of the Company's obligations to him under the Employment Agreement, and (ii) any vested benefits to which he may be entitled under any employee benefit plan or program subject to ERISA.

Furthermore, the Executive acknowledges that this waiver and release is knowing and voluntary and that the consideration given for this waiver and release is in addition to anything of value to which Executive was already entitled. Executive acknowledges that there may exist facts or claims in addition to or different from those which are now known or believed by Executive to exist. Nonetheless, this Agreement extends to all claims of every nature and kind whatsoever, whether known or unknown, suspected or unsuspected, past or present. Executive also expressly waives the provisions of California Civil Code section 1542, which provides: "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him/her must have materially affected his settlement with the debtor." With respect to the claims released in the preceding sentences, the Executive will not initiate or maintain any legal or administrative action or proceeding of any kind against the Company or its predecessors, parent, affiliates, subsidiaries, stockholders, owners, directors, officers, employees, agents, successors, or assigns (including all such persons or entities that have a current or former relationship with the Company), for the purpose of obtaining any personal relief, nor assist or participate in any such proceedings, including any proceedings brought by any third parties (except as otherwise required or permitted by law). The Executive further acknowledges that he/she has been advised by this writing that:

- he/she should consult with an attorney prior to executing this release;
- he/she has at least twenty−one (21) days within which to consider this release;
- he/she has up to seven (7) days following the execution of this release by the parties to revoke the release; and
- this release shall not be effective until such seven (7) day revocation period has expired.

Executive agrees that the release set forth above shall be and remain in effect in all respects as a complete general release as to the matters released.

EXECUTIVE

______________________________ Date: ______________________________

Exhibit 10.47

February 14, 2005

Jeffrey A. Quiram

Re: Stock Option Grant: 1,200,000

Dear Jeff:

I am pleased to present you with the enclosed stock option grant.

1. Fill out the required section **below** and **return it.** Your grant cannot be finalized without it. (A copy will be returned to you after being countersigned by an officer of STI.)

2. Sign the **Stock Option Agreement** and **return it**. (A copy will be returned to you after being countersigned by an officer of STI.)

Please return all documentation to me.

In connection with your grant, you can review the Company's 2003 Proxy, and the 2003 Stock Option Prospectus on our network at *g:\groups\stock option financials\prospectus*. If you desire a copy of these documents, or have questions regarding your grant, please feel free to contact me (805) 690−4539.

I am pleased that you have decided to join STI, and look forward to your contributions to the Company.

Sincerely,

Martin S. McDermut
Senior Vice President, Chief Financial Officer

For processing purposes, please complete. (If married, spouse must sign.)

__________ Single (initial here) __________ Married (see below)

BY HIS OR HER SIGNATURE BELOW, THE SPOUSE OF THE OPTIONEE AGREES TO BE BOUND BY ALL OF THE TERMS AND CONDITIONS OF THE OPTION AGREEMENT.

____ ____
Print − Name of Spouse Signature

encl.

Superconductor Technologies Inc

460 Ward Drive
Santa Barbara, CA 93111−2356

Notice of Grant of Stock Options and Option Agreement

ID: __________

Name: Jeffrey A. Quiram
Address: [OMITTED]
City, State Zip: [OMITTED]

Option Number: _______________
Plan: 2003
ID: _______________

Effective 2/11/05, you have been granted a Stock Option to buy 1,200,000 shares of Superconductor Technologies Inc. (the Company) stock at $1.04 per share (the price of common stock on 2/11/05 when the Company's board of directors approved issuances of the Stock Option).

Except as otherwise set forth in your Employment Agreement dated as of February 14, 2005, (the "Employment Agreement") the shares will become fully vested on the date shown. In the event of a conflict between this option agreement and the Employment Agreement, the Employment Agreement shall govern.

Shares	***Full Vest (1)***	***Expiration (1)***
300,000	2/17/2006	2/11/2015
36 equal monthly installments of 25,000 beginning 3/17/2006	2/17/2009	2/11/2015

1. Vesting based on start date of 2/17/05 set forth Section 1.3 of the Employment Agreement. See the Employment Agreement for accelerated vesting provisions.

2. Expiration is ten (10) ten years from date of grant which was 2/11/05.

By your signature and the Company's signature below, you and the Company agree that these options are granted under and governed by the terms and conditions of the Company's 2003 Equity Incentive Plan and the Option Agreement, all of which are attached and made a part of this document.

Superconductor Technologies Inc. Date: As of February 14, 2005

By: ________________________
Martin S. McDermut
Senior Vice President, Chief
Financial Officer

Jeffrey A Quiram

Date

SUPERCONDUCTOR TECHNOLOGIES INC.

2003 EQUITY INCENTIVE PLAN

STOCK OPTION AGREEMENT

This Option Agreement is subject to the terms and conditions in the Employment Agreement between the Company and Jeffrey A. Quiram dated as of February 14, 2005. In the event of any inconsistency between this Option Agreement and the Employment Agreement, the terms of the Employment Agreement will govern. This Option Agreement is also subject to the terms and conditions of the 2003 Equity Incentive Plan, but the terms of this Option Agreement will govern to the extent deviations are permitted under the 2003 Equity Incentive Plan.

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

II. AGREEMENT

A. Grant of Option.

The Plan Administrator of the Company hereby grants to the Optionee named in the Notice of Grant attached as Part I of this Agreement (the "Optionee") an option (the "Option") to purchase the number of Shares, as set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the "Exercise Price"), subject to the terms and conditions of the Plan, which is incorporated herein by reference.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option under Section 422 of the Code. However, if this Option is intended to be an Incentive Stock Option, to the extent that it exceeds the $100,000 rule of Code Section 422(d) it shall be treated as a Non−statutory Stock Option ("NSO").

B. Exercise of Option.

(a) Right to Exercise. This Option is exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and the applicable provisions of the Plan and this Option Agreement.

(b) Termination Period. See Employment Agreement.

(c) Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit A (the "Exercise Notice"), which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be completed by the Optionee and delivered to the Secretary of the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price and a confirmation of the obligation to pay withholding taxes as to all Exercised Shares. Upon receipt of an Exercise Notice, the Company shall provide Optionee with the amount of withholding taxes due in connection with the Exercise Notice (the "Withholding Tax"). This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price and Withholding Taxes.

No Shares shall be issued pursuant to the exercise of this Option unless such issuance and exercise complies with Applicable Laws. Assuming such compliance, for income tax purposes the Exercised Shares shall be considered transferred to the Optionee on the date the Option is exercised with respect to such Exercised Shares.

C. Method of Payment.

Payment of the aggregate Exercise Price and Withholding Taxes shall be paid in full in cash or by any of the following methods:

1. By personal check of the Optionee.

2. By means of a broker−assisted exercise whereby the Optionee delivers to the Company, together with a properly executed exercise notice, such other documentation as the Committee and the broker assisting in the transaction shall require to effect an exercise of the Option, a sale of the shares of Common Stock acquired upon exercise and the delivery to the Company of the proceeds of such sale in full payment of the Exercise Price and Withholding Taxes.

3. Any combination of the foregoing methods of payment.

The proceeds of a sale of Common Stock upon exercise of an Option shall constitute general funds of the Company.

D. Non−Transferability of Option.

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

E. Term of Option.

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

F. Tax Consequences.

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

G. Exercising the Option.

1. Non−statutory Stock Option. The Optionee may incur regular federal and state income tax liability upon exercise of a NSO. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Exercised Shares on the date of exercise over their aggregate Exercise Price. If the Optionee is an Employee or a former Employee, the Company will be required to withhold from his or her compensation or collect from Optionee and pay to the applicable taxing authorities an amount in cash equal to a percentage of this compensation income at the time of exercise, and may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

2. Incentive Stock Option. If this Option qualifies as an ISO, the Optionee will have no regular federal and state income tax liability upon its exercise, although the excess, if any, of the Fair Market Value of the Exercised Shares on the date of exercise over their aggregate Exercise Price will be treated as an adjustment to alternative minimum taxable income for federal tax purposes and may subject the Optionee to alternative minimum tax in the year of exercise. In the event that the Optionee ceases to be an Employee but remains a Service Provider, any Incentive Stock Option of the Optionee that remains unexercised shall cease to qualify as an Incentive Stock Option and will be treated for tax purposes as a Non−statutory Stock Option on the date three (3) months and one (1) day following such change of status.

3. Disposition of Shares.

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

(b) ISO. If the Optionee holds ISO Shares for at least one year after exercise and two years after the grant date, any gain realized on disposition of the Shares will be treated as long−term capital gain for federal income tax purposes. If the Optionee disposes of ISO Shares within one year after exercise or two years after the grant date, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the excess, if any, of the lesser of (A) the difference between the Fair Market Value of the Shares acquired on the date of exercise and the aggregate Exercise Price, or (B) the difference between the sale price of such Shares and the aggregate Exercise Price. Any additional gain will be taxed as capital gain, short−term or long−term depending on the period that the ISO Shares were held.

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

H. Entire Agreement: Governing Law.

The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee interest except by means of a writing signed by the Company and Optionee. This agreement is governed by the internal substantive laws but not the choice of law rules of California.

I. NO GUARANTEE OF CONTINUED SERVICE.

OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED AN OPTION OR PURCHASING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee has reviewed the Plan and this Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option Agreement and fully understands all provisions of the Plan and Option Agreement. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Option Agreement. Optionee further agrees to notify the Company upon any change in the residence address indicated on the Agreement.

EXHIBIT A

SUPERCONDUCTOR TECHNOLOGIES INC.
2003 EQUITY INCENTIVE PLAN
EXERCISE NOTICE

Superconductor Technologies, Inc.
460 Ward Drive, Suite F
Santa Barbara, California 93111−2310
Attention: Secretary

1. Exercise of Option. Effective as of today, ________________________, _____________, the undersigned ("Purchaser") hereby elects to purchase _________ shares (the "Shares") of the Common Stock of Superconductor Technologies, Inc. (the "Company") under and pursuant to the 2003 Equity Incentive (the "Plan") and the Stock Option Agreement dated _____________________, _____________ (the "Option Agreement"). The purchase price for the Shares shall be $ __________, as required by the Option Agreement.

2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price for the Shares and agrees to deliver to the Company withholding taxes due within five(5) days of written demand.

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

4. Rights as Shareholder. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in Section 13 of the Plan.

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

6. Entire Agreement: Governing Law. The Plan and Option Agreement are incorporated herein by reference. This Agreement, the Plan and the Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser's interest except by means of a writing signed by the Company and Purchaser. This agreement is governed by the internal substantive laws, but not the choice of law rules, of California.

Submitted by:	Accepted by:
PURCHASER	SUPERCONDUCTOR TECHNOLOGIES INC.
______________________________	______________________________

Signature

Print Name

Address:

By

Title

Date Received

Address:
460 Ward Drive, Suite F

Santa Barbara, CA 93111−2310

Exhibit 10.48

Superconductor Technologies Inc.

RETIREMENT AGREEMENT

This Retirement Agreement (the "Agreement") is made and entered into as of February 17, 2005, by and between Superconductor Technologies Inc., a Delaware corporation (the "Company"), and M. Peter Thomas, an individual (the "Executive"), with reference to the following facts:

A. Executive desires to retire from his employment as President and Chief Executive Officer of the Company and his position as a member of the Board of Directors.

B. The Company desires that Executive (i) remain in his present position until certain tasks are completed, (ii) assist with the smooth transition of his duties to a successor and (iii) provide consulting services from time to time to his successor.

C. The Company desires to retain Executive, and Executive desires to be retained, on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, based on the above premises and in consideration of the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Retirement and Transition. Executive will not retire and will remain in his current position until (a) a successor to Executive is hired and starts full−time employment at the Company and (b) the Company files its 2004 Annual Report on Form 10−K with the Securities and Exchange Commission. Executive will retire effective the end of business on the date on which both of these tasks are completed (the "Retirement Date"). The Company and Executive will both use reasonable efforts to complete such tasks on or before March 15, 2005. The Company reserves the right in its sole discretion to waive these conditions and accelerate the Retirement Date. The Company will have sole discretion over the selection of a successor, and Executive will work in good faith to prepare for and effect a smooth transition of his responsibilities to the successor.

2. Consulting Term. The Company agrees to retain Executive, and Executive agrees to provide services to the Company, on the terms set forth in this Agreement for a period commencing as of the Retirement Date and terminating on the first anniversary of the Retirement Date (the "Consulting Term").

3. Consulting Duties. During the Consulting Term, Executive will render such consulting and other services to the Company, consistent with his experience and background and subject to his other business commitments, as may be reasonably requested from time to time by the Company during the Consulting Term. Executive shall devote up to a maximum of (a) 20 hours per month during the first three (3) months of the Consulting Term and (b) 10 hours per month thereafter during the remainder of the Consulting Term. Executive will attend meetings in person at the Company's offices if reasonably requested but may otherwise render all services during the Consulting Term from his home or other personal office.

4. Compensation and Expenses. Prior to the Retirement Date, the Company will continue compensating Executive at his current base salary of $350,155 per year. Executive will receive his cash bonus for services rendered during 2004 in an amount to be determined by the Company's Compensation Committee in the normal course of its work in the awarding of

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bonuses to the executive officers. During the Consulting Term, the Company will compensative Executive at the same rate as his current base salary in accordance with the Company's normal payroll practices and subject to any required withholding or deductions. Executive will not receive any equity, bonus or other compensation for the Consulting Term beyond the cash compensation and benefits expressly set forth in this Agreement. The Company will reimburse Executive for reasonable travel and other business expenses incurred by Executive in the furtherance of or in connection with the performance of Executive's duties hereunder, in accordance with the Company's expense reimbursement policy as in effect from time to time.

5. Medical Insurance and Other Benefits. The Company will provide for one year following the Retirement Date to Executive and Executive's spouse and dependents, at the Company's expense, group health, life and other similar insurance plans substantially comparable to the group health, life and other similar insurance plans in which Executive or

such dependents participated on the Retirement Date.

6. Company Automobile. The Company will at its expense continue to provide Executive with use of the automobile currently in use by him until the end of the Consulting Term.

7. Stock Options. Effective as of the Retirement Date, all the stock options held by the Executive (a) will immediately vest and become fully exercisable and (b) remain exercisable until the earlier of the fifth (5^{th}) anniversary of the Retirement Date or the normal expiration date of the relevant option. Executive is not eligible for additional stock option grants or any other equity compensation.

8. Promissory Note. Effective as of the Retirement Date, the Company forgives Executive's loan under the Promissory Note in accordance with the existing terms of the Promissory Note which were in effect prior to the adoption of the Sarbanes−Oxley Act of 2002.

9. Effect of Death, Disability or Sale on Consulting Payments. If Executive dies or becomes disabled before the end of the Consulting Term, the Company will make all of the payments required hereunder as if the relationship had not terminated. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company or a similar event that the Board determines, in good faith, would materially alter the structure of the Company or its ownership, this Agreement will survive such event and the Company will continue to make all of the payments required hereunder as if such event had not occurred.

10. Resignation as an Officer and Director. Executive hereby resigns, effective as of the Retirement Date, as an officer and director of the Company, and all other director or officer positions held with any member of the Company Group.

11. Covenant−Not−To−Compete During Consulting Term. During the Consulting Term, Executive will not directly or indirectly engage in or assist any activity which is the same as, similar to, or competitive with the Company's business (other than on behalf of the Company), including, without limitation, whether such engagement or assistance is as an officer, director, proprietor, employee, partner, investor (other than as a holder of less than 1% of the outstanding capital stock of a publicly traded corporation), creditor, guarantor, consultant, advisor, agent, sales representative or other participant, in any city or county of the United States.

12. Confidentiality and Related Matters. Executive reaffirms his obligations under his existing Employee Proprietary Information Agreement with the Company and understands that his obligations under that agreement continue during and after the Consulting Term.

13. No Disparaging Remarks. Each of the parties agrees not to make disparaging or derogatory comments about the other party, whether to the press, the investment community, stockholders of the Company or otherwise.

14. Release of Claims.

14.1 Release of the Company. In consideration of the terms and provisions of this Agreement, Executive agrees that he shall and does hereby forever relieve, release and discharge each person in the Company Group from any and all Claims arising out the employment relationship or Executive's retirement. This release does not affect Executive's rights under his stock options, and Executive shall continue to be entitled to indemnification in accordance with the terms of the Company's Restated Certificate of Incorporation, its Restated Bylaws and the existing Indemnification Agreement between the Company and Executive.

14.2 Release of Executive. In consideration of the terms and provisions of this Agreement, the Company agrees that it shall and does hereby forever relieve, release and discharge Executive from any and all Claims arising out the employment relationship or Executive's retirement.

14.3 Scope. The releases set forth in this Section 14 include, but are not limited to, any and all Claims based on, arising out of, or related to Executive's employment relationship with the Company (or any and all facts in any manner arising out of, related to or connected with such employment relationship) or Executive's retirement from his employment with the Company under the terms of this Agreement. Without limiting the generality of the foregoing, Claims released hereunder shall encompass and include, but are not limited to, any Claims arising from rights under federal, state, or local laws relating to the prohibition of discrimination on the basis of race, national origin, sex, religion, age, marital status, handicap, ancestry, sexual orientation, or any other protected classification, and any and all Claims arising under common law, including, but not limited to, common law Claims for breach of contract, breach of the implied covenant of good faith and fair dealing, wrongful termination, discrimination, tortious interference with contract or with current or prospective economic advantage, fraud, deceit, misrepresentation, violation of public policy, breach of privacy, defamation, infliction of emotional distress, loss of consortium, breach of fiduciary duty, Claims arising from any alleged breach of any alleged employment or other agreement, or any other common law Claim of any kind whatsoever.

14.4 Acknowledgement and Effect of Waiver. The parties understand and acknowledge that (a) this Agreement constitutes a voluntary waiver of any and all Claims each has against the other, (b) Executive has waived any and all Claims pursuant to this Agreement in exchange for consideration, the value of which exceeds payments or remuneration to which he was already entitled, and (c) each party has had an opportunity to consult with an attorney concerning this Agreement before executing it.

14.5 Federal Age Discrimination Waiver. Since Executive is 40 years of age or older:

- Executive is entitled to review this Agreement for 21 days before signing it, but Executive may sign and return it earlier if he desires.
- Executive is encouraged to consult with an attorney of his choosing prior to executing this Agreement.
- This Agreement will not become enforceable until seven days following its execution and delivery by Executive, and Executive will have the right to revoke

this Agreement by giving the Company written notice of revocation during that seven−day time period.

14.6 Waiver of Unknown Claims. The Company and Executive waive any and all rights that either may have under Section 1542 of the Civil Code of California, as well as the provisions of all similar statutes or similar principles of common law of California, of the United States, or of the other states of the United States. Section 1542 of the Civil Code of the State of California provides as follows:

> A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

14.7 Filing of Claims. Executive promises not to file any litigation or arbitration Claim against any person in the Company Group relating to Executive's employment with the Company or his retirement. The Company promises not file any litigation or arbitration Claim against Executive relating to Executive's employment with the Company or his retirement.

15. Certain Definitions.

15.1 "Claims" means any and all claims, debts, liabilities, demands, obligations, liens, promises, acts, agreements, costs, and expenses (including, but not limited to, attorneys' fees), damages, actions, and causes of action, of whatever kind or nature, including, without limitation, any statutory, civil, criminal or administrative claim, whether known or unknown, suspected or unsuspected, fixed or contingent, apparent or concealed.

15.2 "Company Group" means the Company and its subsidiaries, together with their respective successors, assigns, officers, directors, agents, employees, representatives, attorneys and shareholders.

15.3 "Consulting Term" has the meaning set forth in Section 2.

15.4 "Employment Agreement" means the Employment Agreement between Company and Executive dated January 1, 2001, as subsequently modified by the actions of the Company's Compensation Committee for annual increases in Executive's base salary.

15.5 "Promissory Note" means the Promissory Note issued by Executive in favor of the Company dated April 2001 in the principal amount of $150,000.

15.6 "Retirement Date" has the meaning set forth in Section 1.

16. General.

16.1 Complete Agreement. This Agreement and any agreements or documents referred to herein or executed contemporaneously herewith constitute the parties' entire agreement with respect to the subject matter hereof and supersede all prior written or oral agreements, representations and warranties with respect to the subject matter hereof. This Agreement may be amended, modified, superseded, cancelled, renewed or extended, and the terms, conditions or covenants hereof may be waived, only by a written instrument executed by both parties to this Agreement, or in the case of a waiver, by the party waiving compliance.

16.2 Notices. Unless otherwise specifically permitted by this Agreement, all notices under this Agreement shall be in writing and shall be delivered by personal service, facsimile, telegram, or certified mail (or, if certified mail is not available, then by first class mail), postage prepaid, (a) to the Company at its principal place of business, (b) to You at your last home address in the employee records of the Company or (c) such other address as may be designated from time to time by the relevant party. Any notice sent by certified mail shall be deemed to have been given three (3) days after the date on which it is mailed. All other notices shall be deemed given when received. No objection may be made to the manner of delivery of any notice actually received in writing by an authorized agent of a party.

16.3 Arbitration of Disputes. If Executive and the Company cannot resolve a dispute (whether arising in contract or tort or any other legal theory, whether based on federal, state or local statute or common law and regardless of the identities of any other defendants) that in any way relates to or arises out of this Agreement, Executive's retirement from the Company, or (without limiting the generality of any other Section herein) Executive's past employment with the Company, then such dispute shall be settled by arbitration in Los Angeles, California in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The Company will pay the fees and costs of the arbitrator.

16.4 Attorneys' Fees for Executive. If any litigation or arbitration is commenced (including any proceedings in a bankruptcy court) between the parties concerning any provision of this Agreement and Executive is the prevailing party in such proceeding, the Executive shall be entitled, in addition to such other relief as may be granted, to recover his attorneys' reasonable fees and costs incurred by reason of such litigation or arbitration. The prevailing party shall be determined by the court or arbitrator based upon an assessment of which party's major arguments or positions taken in the proceedings could fairly be said to have prevailed over the other party's major arguments or positions on major disputed issues.

16.5 Severability. The invalidity or unenforceability of any provision of this Agreement, or any terms hereof, shall not affect the validity or enforceability of any other provision or term of this Agreement.

16.6 Counterparts and Facsimile. This Agreement may be executed in multiple counterparts and by facsimile.

*** [NEXT PAGE IS SIGNATURE PAGE] ***

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.
M. Peter Thomas	John D. Lockton, Chairman of the Board

Retirement Agt – P. Thomas

Exhibit 10.49

AMENDMENT 1

(Dated January 4, 2005)

MANAGEMENT AGREEMENT
Between
SUPERCONDUCTOR TECHNOLOGIES INC.
And
TRILOGY ENTERPRISES LLC

The Management Agreement ("Agreement") by and between SUPERCONDUCTOR TECHNOLOGIES INC. ("STI"), a Delaware Corporation, located at 460 Ward Drive, Santa Barbara, CA 93111, and Trilogy Enterprises LLC ("TE"), a California Limited Liability Company, located at [OMITTED], executed on July 19, 2004, is hereby amended as of January 4, 2005 ("Amendment Effective Date") as follows:

1. **TERM** (Sec. 8. TERM/TERMINATION in Agreement) — Principal's engagement under Agreement shall be extended until July 31, 2005. All other provisions in Sec. 8 of Agreement shall remain unchanged.

2. **COMPENSATION** (Sec. 3 COMPENSATION in Agreement) — The Non−Qualified Stock Options on fifty thousand (50,000) share of STI common stock awarded to Principal under Agreement will vest as of January 19, 2005. All other provisions in Sec. 3 of Agreement shall remain unchanged, including the monthly compensation paid to Principal for services, and the provision for additional incentive payment to Principal, based on meeting objectives to be mutually defined for the remainder of the engagement.

All Sections of Agreement not mentioned above shall remain unchanged.

IN WITNESS WHEREOF, the undersigned have executed this Agreement on the date set forth below.

SUPERCONDUCTOR TECHNOLOGIES INC.	**TRILOGY ENTERPRISES LLC**
By: ______________________	By: ______________________
M. Peter Thomas Henry President and CEO	Henry A. Macchio President
Date: ______________________	Date: ______________________

MANAGEMENT AGREEMENT

Between
SUPERCONDUCTOR TECHNOLOGIES INC.
And
TRILOGY ENTERPRISES LLC

This Management Agreement ("Agreement") is made effective as of July 19, 2004, ("Effective Date") by and between SUPERCONDUCTOR TECHNOLOGIES INC. ("STI"), a Delaware Corporation, located at 460 Ward Drive Santa Barbara, CA 93111, and Trilogy Enterprises LLC ("TE"), a California Limited Liability Company, located at [OMITTED].

WHEREAS STI is engaged in the business of providing products, and services to the domestic and international wireless telecommunications industry,

WHEREAS TE is engaged in the business of Business Development, Management Consultation, Acquisitions and Mergers in wireless communications, and Henry A. Macchio ("Principal") is President of Trilogy Enterprises LLC,

WHEREAS STI desires to engage the services of TE and Principal, and TE and Principal agree to provide such services as herein outlined,

THEREFORE, the parties agree as follows:

1. ENGAGEMENT. STI shall engage Principal, and appoints Principal as Acting Vice .President . of Product Marketing.

Principal shall provide to STI the services described on the attached Exhibit A. Such services shall be provided at such place(s) as the needs, business, or opportunities of STI may require from time to time. Principal accepts and agrees to such engagement, and agrees to be subject to the advice and direction of the CEO of STI, and agrees to comply with all of the rules, regulations and management principles of STI — as set forth in STI's Employee Handbook including without limitation compliance with Import−Export Regulations, the rules and regulations promulgated pursuant to the Securities and Exchange Act, and the Foreign Corruption Practice Act.

3. COMPENSATION. As compensation for the services provided by Principal under this Agreement, STI will pay TE a monthly amount of $16,667 payable on the last business day of the month. Upon termination of this Agreement, payments under this section shall cease; provided, however, TE shall be entitled to payments for periods or partial periods that occurred prior to the date of termination for which TE has not yet been paid.

In addition to the payments under the preceding paragraph, STI will make incentive payments of thirty percent (30%) of compensation received at the end of the engagement of TE based upon performance. The performance objectives, metrics and incentive payment formula will be developed by written mutual agreement subsequent to the execution of this Agreement.

After the August 3, 2004 Board of Directors meeting and with its approval, STI will award TE non−employee, Non−Qualified Stock Options on fifty thousand (50,000) shares of STI common stock, which will cliff vest at the end of the assignment if the performance objectives referred to in the preceding paragraph are met; otherwise it will vest on December 31, 2006. The option will be exercisable until December 31, 2006.

4. EXPENSE REIMBURSEMENT. STI will reimburse Principal for "out−of−pocket" expenses incurred on behalf of STI in accordance with STI's guidelines then in effect.

5. CONFIDENTIALITY. Principal recognizes that STI has and will have confidential information including, without limitation, proprietary, technological, marketing, sales, distribution, operating, performance, cost, know−how, business and process information, financial information or reports, market studies, contracts, proposed products and services to be offered or strategic alliances entered into or to be entered into, and similar business, financial and proprietary information, and other vital information items (collectively, "Information") which are valuable, special and unique assets of STI. Principal agrees that Principal will not at any time or in any manner, either directly or indirectly, divulge, disclose, or communicate any Information to any third party without the prior written consent of STI. A violation by Principal of this paragraph will justify legal and/or equitable relief, including STI seeking an injunction to restrain Principal from unauthorized disclosure

The confidentiality provisions of this Agreement shall remain in full force and effect for a two (2) year period after the termination of this Agreement.

6. **INVENTIONS, DISCLOSURES, AND IMPROVEMENTS.** Any invention, improvement, design, proposal, or any other patentable or copyrightable interest, or similar interest, which Principal's work for STI has or may be concerned shall be the exclusive property of STI. Any invention, improvement, design, proposal, or any other patentable or copyrightable interest, based on proprietary information to which Principal is exposed in the course of engagement with STI shall be the exclusive property of STI.

Principal agrees to make full and prompt disclosure in writing to an officer or official of STI or to anyone designated for that purpose by STI, of all subject matter related to above. Upon request by STI, Principal shall assign to STI full right, title, and any other applicable interest to all inventions, improvements, designs, proposals, or any other patentable or copyrightable interests, or similar interests, identified in above.

Principal further agrees that any and all written material, including but not limited to, records, drawings or work notes, made by Principal in connection with the services performed under this Agreement; or in connection with any ideas or inventions made or conceived by Principal, shall be the sole and exclusive property of STI. STI has the sole right to obtain copyrights upon any such writings or patents for any inventions contained in this clause.

7. COMPETITION. Principal warrants that Principal is not now affiliated with or employed by commercial parties engaged in services of the type described in Exhibit A and covering the term of this Agreement, and Principal further warrants that he is not bound by any agreement which, by its terms, would conflict with the terms of this Agreement .

8. TERM/TERMINATION. Principal's engagement under this Agreement shall be for six (6) months, beginning on the Effective Date of this Agreement. This Agreement can be renewed by mutual written agreement of STI and TE for such additional period(s) as may be required by TE to complete an assigned task.

STI can terminate this agreement without notice and without liability for any material breach of this Agreement or term or condition herein.

STI and Principal shall each have the option to terminate this Agreement upon mutual agreement or unilaterally upon sixty (60) days written notice.

9. RELATIONSHIP OF STI AND PRINCIPAL — INDEPENDENT CONTRACTOR STATUS. It is the express agreement of the parties that Principal is an independent contractor and not an employee, agent, joint venture or partner of STI. Nothing in this Agreement shall be construed or interpreted as creating or establishing the relationship of employer and employee between STI and Principal or between STI and any employee or agent of Principal.

Principal will determine the method, details, and means of performing this service. Principal is not entitled to any of the benefits that STI provides for its employees including, but not limited to, worker's compensation insurance, unemployment insurance, stock options (except as noted in Section 3 of this Agreement), the Employee Stock Purchase Plan, or the Pension and Profit−sharing Plan. Principal is responsible for paying all required state and federal taxes.

Principal shall retain the right to perform services for others during the term of this Agreement. However, because of the proprietary nature of STI's business Principal shall inform STI in advance of furnishing services to STI's competitors STI shall retain the right to terminate this Agreement if, in STI's sole judgment, Principal's relationships with other parties constitutes an actual or potential conflict of interest.

STI shall have no right to control the manner or determine the method of accomplishing Principal's services. STI will not withhold FICA (Social Security) from payments to Principal; STI will not make state or federal unemployment insurance contributions on behalf of Principal; STI will not obtain workers' compensation insurance on behalf on Principal; STI will not withhold income tax from payments to Principal; STI will not make disability insurance contributions on behalf of Principal.

10. NOTICES. All notices required or permitted under this Agreement shall be in writing and shall be deemed delivered when delivered in person, or on the third day after being deposited in the United States mail, postage paid, addressed as follows:

SUPERCONDUCTOR TECHNOLOGIES INC.:	TRILOGY ENTERPRISES LLC:
M. Peter Thomas President and CEO 460 Ward Drive Santa Barbara, CA 93111	Henry A. Macchio President [OMITTED]

11. SEVERABILITY. If any provisions of this Agreement shall be held to be invalid or unenforceable for any reason, the remaining provisions shall continue to be valid and enforceable. If a court finds that any provision of this Agreement is invalid or unenforceable, but that by limiting such provision it would become valid or enforceable, then such provision shall be deemed to be written, construed, and enforced as so limited.

12. WAIVER OF CONTRACTUAL RIGHT. The failure of either party to enforce any provision of this Agreement shall not be construed as a waiver or limitation of that party's right to subsequently enforce and compel strict compliance with every provision of this Agreement.

13. APPLICABLE LAW. This Agreement shall be governed by the laws of the State of California without regard to conflict of laws principles.

14. ENTIRE AGREEMENT. This Agreement contains the entire agreement of the parties and there are no other promises or conditions in any other agreement whether oral or written. This Agreement supersedes any prior written or oral agreements between the parties.

IN WITNESS WHEREOF, the undersigned have executed this Agreement on the date set forth below.

SUPERCONDUCTOR TECHNOLOGIES INC.	**TRILOGY ENTERPRISES LLC**
By: ______________________	By: ______________________
M. Peter Thomas President and CEO	Henry A. Macchio President
Date: ______________________	Date: ______________________

Exhibit A

Services Provided by Trilogy Enterprises LLC
Under Management Agreement
between
Superconductor Technologies Inc. and Trilogy Enterprises LLC
dated July 19, 2004

Act as Vice President of Product Marketing responsible for managing present product management organization and developing product strategies and product plans, including pricing strategies and value propositions, for all STI products, with special emphasis on AmpLink and power amplifiers. Undertake to position and sell AmpLink to OEMs (Are they friend or foe?). Develop a long−term product strategy for STI with consideration of integrated booster products and RF Modules. Develop strategic partnerships where appropriate.

Exhibit 10.50

[LETTERHEAD OF STI]

July __, 2004

VIA FEDERAL EXPRESS PRIVILEGED AND CONFIDENTIAL

«NAME»
«ADDRESS»
«CITYSTATEZIP»

Dear «SAL»:

This letter is to inform you that, subject to your agreement to the undertakings described below, Superconductor Technologies Inc. (“STI”) intends, to the maximum extent permitted by the Bylaws of STI (as restricted by applicable law), to advance your reasonable defense expenses (including attorneys’ fees) incurred in connection with the following litigations (including any related litigations which are subsequently filed) brought in the United States District Court for the Central District of California (the “Actions”):

Backhaus v. Superconductor Technologies Inc.., et al., CV 04−2680
Goldfine v. Superconductor Technologies Inc.., et al., CV 04−2848
Alvarez v. Superconductor Technologies Inc.., et al., CV 04−2927

This letter is also intended to confirm that you in good faith believe that you meet the standard of conduct necessary for indemnification under Section 145 of the Delaware General Corporation Law – that to the extent of your involvement in any matters that are the subject of any of the Actions, you acted in good faith and in a manner you reasonably believed to be in or not opposed to the best interests of STI. Section 145(e) and STI’s Bylaws require that, should it ultimately be determined that you are not entitled to be indemnified by STI as authorized by those provisions, any advance payments made by STI on your behalf in connection with any of the Actions as to which such a determination is made must be repaid by you to STI.

Accordingly, you undertake to repay all amounts paid or reimbursed by STI on your behalf in connection with the Actions if it shall ultimately be determined that, with respect to the subject matter of the Actions, you are not entitled to be indemnified. You further agree that, by advancing defense expenses on your behalf, STI does not waive or limit any right to recoupment of such expenses from any insurance policies which may be applicable. STI acknowledges that you are not waiving any rights you may have to indemnification under applicable corporate, employment or other laws.

Please acknowledge your agreement with the foregoing by signing and returning the enclosed copy of this letter.

Very truly yours,

SUPERCONDUCTOR TECHNOLOGIES, INC..,
a Delaware corporation

By: ______________________________

Acknowledged and agreed:

______________________________ Date: ______________________________
[NAME]

Exhibit 10.51

Superconductor Technolgies Inc.
Notice of Grant of Stock Options
and Option Agreement

ID: 77−0158076
460 Ward Drive
Santa Barbara, CA 93111−2356

Name		**Option Number:**	**002872**
Address		**Plan:**	**2003**
City, State	**Zip**	**ID:**	**1533**

Effective 1/27/2004, you have been granted a(n) Incentive Stock Option to buy _________ (FILL IN NUMBER OF SHARES) shares of
Superconductor Technolgies Inc. (the Company) stock at $_________ (FILL IN EXERCISE PRICE) per share.

The total option price of the shares granted is $_________.

Shares in each period will become fully vested on the date shown.

Shares	Vest Type	Full Vest	Expiration
_________	On Vest Date	1/1/2005	1/27/2014
_________	Monthly	1/1/2008	1/27/2014

By your signature and the Company's signature below, you and the Company agree that these options are granted under and governed by the terms and conditions of the Company's Stock Option Plan as amended and the Option Agreement, all of which are attached and made a part of this document.

Superconductor Technolgies Inc. Date

name Date

Date: 2/11/2005
Time: 12:46:46PM

SUPERCONDUCTOR TECHNOLOGIES INC.

2003 EQUITY INCENTIVE PLAN

STOCK OPTION AGREEMENT

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

II. AGREEMENT

A. Grant of Option.

The Plan Administrator of the Company hereby grants to the Optionee named in the Notice of Grant attached as Part I of this Agreement (the "Optionee") an option (the "Option") to purchase the number of Shares, as set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the "Exercise Price"), subject to the terms and conditions of the Plan, which is incorporated herein by reference. Subject to Section 15(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option under Section 422 of the Code. However, if this Option is intended to be an Incentive Stock Option, to the extent that it exceeds the $100,000 rule of Code Section 422(d) it shall be treated as a Non−statutory Stock Option ("NSO").

B. Exercise of Option.

(a) Right to Exercise. This Option is exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and the applicable provisions of the Plan and this Option Agreement.

(b) Termination Period. This Option may be exercised for three (3) months after Optionee ceases to be a Service Provider. Upon the death or disability of the Optionee, this Option may be exercised for one year after Optionee ceases to be a Service Provider. In no event shall this Option be exercised later than the Term/Expiration Date as provided above.

(c) Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit A (the “Exercise Notice”), which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the “Exercised Shares”), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be completed by the Optionee and delivered to the Secretary of the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price and a confirmation of the obligation to pay withholding taxes as to all Exercised Shares. Upon receipt of an Exercise Notice, the Company shall provide Optionee with the amount of withholding taxes due in connection with the Exercise Notice (the “Withholding Tax”). This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price and Withholding Taxes.

No Shares shall be issued pursuant to the exercise of this Option unless such issuance and exercise complies with Applicable Laws. Assuming such compliance, for income tax purposes the Exercised Shares shall be considered transferred to the Optionee on the date the Option is exercised with respect to such Exercised Shares.

C. Method of Payment.

Payment of the aggregate Exercise Price and Withholding Taxes shall be paid in full in cash or by any of the following methods:

1. By personal check of the Optionee.

2. By means of a broker−assisted exercise whereby the Optionee delivers to the Company, together with a properly executed exercise notice, such other documentation as the Committee and the broker assisting in the transaction shall require to effect an exercise

of the Option, a sale of the shares of Common Stock acquired upon exercise and the delivery to the Company of the proceeds of such sale in full payment of the Exercise Price and Withholding Taxes.

3. Any combination of the foregoing methods of payment.

The proceeds of a sale of Common Stock upon exercise of an Option shall constitute general funds of the Company.

D. Non−Transferability of Option.

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

E. Term of Option.

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

F. Tax Consequences.

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

G. Exercising the Option.

1. Non−statutory Stock Option. The Optionee may incur regular federal and state income tax liability upon exercise of a NSO. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Exercised Shares on the date of exercise over their aggregate Exercise Price. If the Optionee is an Employee or a former Employee, the Company will be required to withhold from his or her compensation or collect from Optionee and pay to the applicable taxing authorities an amount in cash equal to a percentage of this compensation income at the time of exercise, and may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

2. Incentive Stock Option. If this Option qualifies as an ISO, the Optionee will have no regular federal and state income tax liability upon its exercise, although the excess, if any, of the Fair Market Value of the Exercised Shares on the date of exercise over their aggregate Exercise Price will be treated as an adjustment to alternative minimum taxable income for federal tax purposes and may subject the Optionee to alternative minimum tax in the year of exercise. In the event that the Optionee ceases to be an Employee but remains a Service Provider, any Incentive Stock Option of the Optionee that remains unexercised shall cease to qualify as an Incentive Stock Option and will be treated for tax purposes as a Non−statutory Stock Option on the date three (3) months and one (1) day following such change of status.

3. Disposition of Shares.

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

(b) ISO. If the Optionee holds ISO Shares for at least one year after exercise and two years after the grant date, any gain realized on disposition of the Shares will be treated as long−term capital gain for federal income tax purposes. If the Optionee disposes of ISO Shares within one year after exercise or two years after the grant date, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the excess, if any, of the lesser of (A) the difference between the Fair Market Value of the Shares acquired on the date of exercise and the aggregate Exercise Price, or (B) the difference between the sale price of such Shares and the aggregate Exercise Price. Any additional gain will be taxed as capital gain, short−term or long−term depending on the period that the ISO Shares were held.

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

H. Entire Agreement: Governing Law.

The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee interest except by means of a writing signed by the Company and Optionee. This agreement is governed by the internal substantive laws but not the choice of law rules of California.

I. NO GUARANTEE OF CONTINUED SERVICE.

OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED AN OPTION OR PURCHASING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee has reviewed the Plan and this Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option Agreement and fully understands all provisions of the Plan and Option Agreement. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Option Agreement. Optionee further agrees to notify the Company upon any change in the residence address indicated on the Agreement.

EXHIBIT A

SUPERCONDUCTOR TECHNOLOGIES INC.
2003 EQUITY INCENTIVE PLAN
EXERCISE NOTICE

Superconductor Technologies, Inc.
460 Ward Drive, Suite F
Santa Barbara, California 93111−2310
Attention: Secretary

1. Exercise of Option. Effective as of today, ____________________, __________ the undersigned ("Purchaser") hereby elects to purchase __________ shares (the "Shares") of the Common Stock of Superconductor Technologies, Inc. (the "Company") under and pursuant to the 2003 Equity Incentive (the "Plan") and the Stock Option Agreement dated ____________________, __________ (the "Option Agreement"). The purchase price for the Shares shall be $ __________, as required by the Option Agreement.

2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price for the Shares and agrees to deliver to the Company withholding taxes due within five (5) days of written demand.

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

4. Rights as Shareholder. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in Section 13 of the Plan.

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

6. Entire Agreement: Governing Law. The Plan and Option Agreement are incorporated herein by reference. This Agreement, the Plan and the Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser's interest except by means of a writing signed by the Company and Purchaser. This agreement is governed by the internal substantive laws, but not the choice of law rules, of California.

Submitted by: PURCHASER	Accepted by: SUPERCONDUCTOR TECHNOLOGIES INC.
______________________________ Signature	______________________________ By
______________________________ Print Name	______________________________ Title
	______________________________ Date Received
Address: ______________________________ ______________________________	Address: 460 Ward Drive, Suite F Santa Barbara, CA 93111−2310

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 and 333−106594) and the Registration Statements on Form S−3 (File Nos. 333−65035, 333−48540, 333−71958, 333−84914, 333−99033, 333−102186, 333−106589, and 333−111818) of our report dated March 11, 2005, 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 16, 2005

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, M. Peter Thomas, 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 16, 2005

/s/ M. Peter Thomas

M. Peter Thomas
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 16, 2005

/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 16, 2005

I, M. Peter Thomas, 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, 2004 (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/ M. Peter Thomas

M. Peter Thomas
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 16, 2005

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, 2004 (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