

SUPERCONDUCTOR TECHNOLOGIES INC

Form 10-K

March 30, 2012

[Table of Contents](#)

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

FORM 10-K
ANNUAL REPORT
PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from _____ **to** _____

Commission File Number 0-21074

SUPERCONDUCTOR TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

77-0158076
(IRS Employer

incorporation or organization)

Identification No.)

460 Ward Drive, Santa Barbara, California 93111-2310

(Address of principal executive offices) (Zip Code)

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

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

Title of each class
Common stock, \$0.001 par value

Name of each exchange on which registered
The NASDAQ Stock Market, LLC

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

None

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐

Accelerated Filer ☐

Non-accelerated Filer ☐ (Do not check if smaller reporting company)

Smaller reporting company ☒

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

The aggregate market value of the common stock held by non-affiliates was \$52.2 million as of July 2, 2011 (the last business day of our most recently completed second fiscal quarter). The closing price of the common stock on that date was \$2.32 as reported by the NASDAQ Capital Market. For purposes of this

Edgar Filing: SUPERCONDUCTOR TECHNOLOGIES INC - Form 10-K

determination, we excluded the shares of common stock held by each officer and director and by each person who was known to us to own 10% or more of the outstanding common stock as of July 2, 2011. The exclusion of shares owned by the aforementioned individuals and entities from this calculation does not constitute an admission by any of such individuals or entities that he or it was or is an affiliate of ours.

We had 40,268,376 shares of common stock outstanding as of the close of business on March 16, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12, 13 and 14 of Part III incorporate information by reference from the definitive proxy statement for the Registrant's 2012 Annual Meeting of Stockholders.

Table of Contents

SUPERCONDUCTOR TECHNOLOGIES INC.

FORM 10-K ANNUAL REPORT

Year Ended December 31, 2011

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

<u>SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS</u>	Page
WHERE YOU CAN FIND MORE INFORMATION	1
PART I	
Item 1. <u>Business</u>	2
Item 1A. <u>Risk Factors</u>	8
Item 1B. <u>Unresolved Staff Comments</u>	17
Item 2. <u>Properties</u>	17
Item 3. <u>Legal Proceedings</u>	17
Item 4. <u>Mine Safety Disclosures</u>	17
PART II	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	18
Item 6. <u>Selected Financial Data</u>	20
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
Item 8. <u>Financial Statements and Supplementary Data</u>	29
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	29
Item 9A. <u>Controls and Procedures</u>	30
Item 9B. <u>Other Information</u>	30
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	31
Item 11. <u>Executive Compensation</u>	31
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	31
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	31
Item 14. <u>Principal Accounting Fees and Services</u>	31
PART IV	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	32

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We claim the protection of the safe harbor contained in the Private Securities Litigation Reform Act of 1995 for these forward looking statements. Our forward-looking statements relate to future events or our future performance and include, but are not limited to, statements concerning our business strategy, future commercial revenues, market growth, capital requirements, new product introductions, expansion plans and the adequacy of our funding. Other statements contained in this Report that are not historical facts are also forward-looking statements. We have tried, wherever possible, to identify forward-looking statements by terminology such as may, will, could, should, expects, anticipates, intends, plans, believes, seeks, estimates and other comparable terminology.

We caution investors that any forward-looking statements presented in this Report, or that we may make orally or in writing from time to time, are based on the beliefs of, assumptions made by, and information currently available to, us. Such statements are based on assumptions and the actual outcome will be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control or ability to predict. Although we believe that our assumptions are reasonable, they are not guarantees of future performance and some will inevitably prove to be incorrect. As a result, our actual future results can be expected to differ from our expectations, and those differences may be material. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on known results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include the following:

limited cash and a history of losses;

our need to raise additional capital for our business;

our need to overcome additional technical challenges necessary to develop and commercialize HTS wire;

limited number of potential customers;

decreases in average selling prices for our products;

rapidly advancing technology in our target markets;

the impact of competitive products, technologies and pricing;

limited number of suppliers for some of our components;

no significant backlog from quarter to quarter;

fluctuations in sales and product demand from quarter to quarter can be significant;

Edgar Filing: SUPERCONDUCTOR TECHNOLOGIES INC - Form 10-K

our proprietary rights, while important to our business, are difficult and costly to protect;

manufacturing capacity constraints and difficulties;

the current worldwide recession; and

cost and uncertainty from compliance with environmental regulations.

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

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

Table of Contents

PART I

ITEM 1. BUSINESS

General

We are a leading company in developing and commercializing high temperature superconductor (HTS) materials and related technologies. Superconductivity is the unique ability to conduct various signals or energy (e.g., electrical current or radio frequency (RF) signals) with little or no resistance when cooled to critical temperatures. HTS materials are a family of elements that demonstrate superconducting properties at temperatures significantly warmer than previous superconducting materials. Electric currents that flow through conventional conductors encounter resistance that requires power to overcome and generates heat. HTS materials can substantially improve the performance characteristics of electrical systems, reducing power loss, lowering heat generation, and decreasing electrical noise.

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

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

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

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

Commercialization

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

Wireless Networks. Our current commercial products help maximize the performance of wireless telecommunications networks by improving the quality of uplink signals from mobile wireless devices. Our products increase capacity utilization, lower dropped and blocked calls, extend coverage, and enable higher wireless data throughput all while reducing capital and operating costs.

Superconducting Power Applications. As discussed above, we are adapting our unique HTS materials deposition techniques to deliver energy efficient, cost-effective and high performance 2G HTS wire technology for next generation power applications. We have identified several large initial target markets for our 2G HTS wire including energy (wind turbines, smart grid) and industrial (motors, generators) applications. To accelerate development and manufacturing processes for our 2G HTS wire, we are partnering with HTS industry leaders and the United States National Labs. In July 2011, we renewed our three year Cooperative Research and Development Agreement with Los Alamos National Laboratory (LANL). These technological interchanges will help us meet the technical challenges and performance metrics for both high performance and cost effective 2G HTS wire.

Table of Contents

RF Filters. Our RF filter structures resemble a circuit on a semiconductor using a circuit that is etched into HTS materials that are deposited on a wafer. Our unique and innovative circuits allow us to utilize the characteristics of the HTS materials for this application, and we have developed unique tuning methods that allow us to produce a frequency specific filter. We are also leveraging our unique technology to design advanced reconfigurable filters, which have the potential to reduce the size and cost of mobile devices.

Cryocoolers. We developed a unique cryocooler that can efficiently and reliably cool HTS circuits to the critical temperature (77 degrees Kelvin), and as a result, our wireless products are maintenance free and reliable enough to be deployed for many years. Our development efforts (including those described above under Strategic Initiatives below) can take a significant number of years to commercialize, and we must overcome significant technical barriers and deal with other significant risks, some of which are set out in our public filings, including in particular the Risk Factors included in Item 1A of this Report.

Our Wireless Business

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

SuperLink®, a highly compact and reliable receiver front-end HTS wireless filter system to eliminate out-of-band interference for wireless base stations, combining filters with a proprietary cryogenic cooler and a cooled low-noise amplifier;

AmpLink®, a ground-mounted unit for wireless base stations that includes a high-performance amplifier and up to six dual duplexers; and

SuperPlex, a high-performance multiplexer that provides extremely low insertion loss and excellent cross-band isolation designed to eliminate the need for additional base station antennas and reduce infrastructure costs.

We sell most of our current commercial products to a small number of wireless carriers in the United States, including AT&T and Verizon Wireless. Verizon Wireless and AT&T each accounted for more than 10% of our commercial revenues in each of the last three years. Demand for wireless communications equipment fluctuates dramatically and unpredictably and recently has been trending downward. The wireless communications infrastructure equipment market is extremely competitive and is characterized by rapid technological change, new product development, product obsolescence, evolving industry standards and price erosion over the life of a product. We expect these trends to continue and may cause significant fluctuations in our quarterly and annual revenues. Our commercial operations are subject to a number of significant risks, some of which are set out in our public filings, including in particular the Risk Factors included in Item 1A of this Report.

Our Strategic Initiatives

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

HTS Wire Platform

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

Table of Contents

Superconducting High Power Transmission Cable:

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

Superconducting Fault Current Limiter (SFCL):

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

Superconducting Rotating Machines Motors and Generators:

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

RF Filters

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

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

Table of Contents

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

Cryocoolers

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

Other Investments

From time to time we may pursue joint ventures with other entities to commercialize our technology. In 2007, we formed a joint venture with Hunchun BaoLi Communication Co. Ltd. (BAOLI) to manufacture and sell our SuperLink interference elimination solution in China. We use the equity method of accounting for our 45 percent joint venture interest. The joint venture agreement called for our joint venture partner to supply the capital and local expertise, and for us to provide a license of certain technology and supply key parts for manufacturing. Since 2007, we have been conducting lab and field trials in the existing China 2G market using our TD-SCDMA and SuperLink solutions. Although those activities continue, the parties have not completed their contributions to the joint venture, including most of the funding and our license, within the two year period specified by the agreement and Chinese law. The future of the joint venture, including any commencement of manufacturing and the transfer of our processes, will depend on product demand in China, completion of funding by our joint venture partner, as well as a number of other conditions, including certain critical approvals from the Chinese and United States governments. There continues to be no assurance that these conditions will be met and even if these conditions are met and the approvals received, the results from our joint venture will be subject to a number of significant risks associated with international operations and new ventures, some of which are set forth in our public filings, including in particular the Risk Factors included in Item 1A of this Report. As a result of this uncertainty, at December 31, 2009, we fully reserved against our investment in the joint venture of \$521,000. There was no such expense in 2011 or 2010.

Licenses

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

Government Contracts

While we do not expect to continue to generate significant revenues from government contracts as we focus on our strategic initiatives going forward for 2011, 2010 and 2009, government related contracts accounted for 2%, 23% and 32%, respectively, of our net revenues. We typically own the intellectual property developed under these contracts, and grant the Federal government a royalty-free, non-exclusive and nontransferable license to use it. As a result, our government contracts can not only generate a profit for us, but we can also make additional money through exploiting of the resulting technology in our commercial operations as well as government products, or through licenses or joint ventures. Contracts with the U.S. government contain provisions, and are subject to laws and regulations, that give the government rights and remedies not typically found in commercial contracts, including rights that allow the government to:

terminate existing contracts for convenience, which affords the U.S. government the right to terminate the contract in whole or in part any time it wants for any reason or no reason, as well as for default;

Table of Contents

reduce or modify contracts or subcontracts, if its requirements or budgetary constraints change;

cancel or reduce multi-year contracts and related orders, if funds for contract performance for any subsequent year become unavailable;

adjust reimbursable contract costs and fees on the basis of audits completed by its agencies through exercise of its oversight rights; and

control or prohibit the export of products.

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

Manufacturing

Our manufacturing process involves the assembly of numerous individual components and precision tuning by production technicians. We purchase inventory components and manufacture inventory based on sales forecasts. The parts and materials used by us and our contract manufacturers consist primarily of printed circuit boards, specialized subassemblies, fabricated housing, relays and small electric circuit components, such as integrated circuits, semiconductors, resistors and capacitors. We currently manufacture our SuperLink systems at our facilities in Santa Barbara, California. Principal components of our AmpLink and SuperPlex products are produced by foreign manufacturers. Our Santa Barbara facilities currently also house our AmpLink assembly and distribution center. In January 2012, we took possession of our new advanced manufacturing center of excellence in Austin, TX. The new facility addresses our growth expectations for the superconducting wire initiative. The opening of the new facility has been scheduled to coincide with the delivery of the first superconducting wire production ready equipment in early 2012.

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

Marketing and Sales

Because we have a concentrated customer base, we primarily sell using a direct sales force in the U.S. We use indirect channels to market our products to select customers internationally. Our sales and marketing efforts are complemented by a team of sales applications engineers who manage field trials and initial installations, as well as provide ongoing pre-sales and post-sales support.

Competition

We face competition in various aspects of our technology and product development. Our products compete on the basis of performance, functionality, reliability, pricing, quality, and compliance with industry standards. With respect to our HTS wire, we compete with American Superconductor, SuperPower and THEVA, among others. Our current and potential competitors with respect to our wireless business include conventional RF filter manufacturers, including CommScope, Powerwave, and RFS and both established and newly emerging companies developing similar or competing HTS technologies. In the government sector, we compete with

Table of Contents

universities, national laboratories and both large and small companies for research and development contracts, and with larger defense contractors, such as Raytheon and Northrop Grumman, for government products. In addition, we currently supply components and license technology to several companies that may eventually decide to manufacture or design their own HTS components, rather than purchasing or licensing our technology.

Research and Development

Most of our research and development activities are focused on developing our 2G HTS wire product. Our wireless products and government contract efforts require significantly less of our engineering resources today than in 2010 and 2009. We spent a total of \$5.4 million for 2011, and \$6.2 million and \$7.0 million for each of 2010 and 2009 on research and development, of which \$5.3 million, \$5.1 million and \$4.4 million, respectively, was for company-funded research and development. Customer-funded research and development, most of which was attributable to work under contracts with the U.S. Government, represented 2%, 19% and 37% of total research and development costs for each of 2011, 2010 and 2009, respectively.

Our Proprietary Technology

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

Environmental Issues

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

Corporate Information

Our facilities and executive offices are located at two locations: 460 Ward Drive, Santa Barbara, California 93111, and as of January 2012, 9101 Wall Street, Austin, Texas 78710. Our telephone number is (805) 690-4500. We were incorporated in Delaware on May 11, 1987. Additional information about us is available on our website at www.suptech.com. The information on our web site is not incorporated herein by reference.

Employees

As of December 31, 2011, we had a total of 38 employees. None of our employees are represented by a labor union, and we believe that our employee relations are good.

Backlog

Our commercial backlog consists of accepted product purchase orders with scheduled delivery dates during the next twelve months. We had commercial backlog of \$13,000 at December 31, 2011, compared to \$342,000 at December 31, 2010.

Table of Contents

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business

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

In each of our last five years, we have experienced significant net losses and negative cash flows from operations. In 2011, we incurred a net loss of \$13.4 million and had negative cash flows from operations of \$10.0 million. In 2010, we incurred a net loss of \$12.0 million and had negative cash flows from operations of \$9.4 million. Our independent registered public accounting firm has included in its audit reports an explanatory paragraph expressing doubt about our ability to continue as a going concern. If we fail to increase our revenues, we may not achieve and maintain profitability and may not meet our expectations or the expectations of financial analysts who report on our stock.

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

At December 31, 2011 we had \$6.2 million in cash and cash equivalents. Our cash resources may not be sufficient to fund our business for at least the next twelve months. We believe the key factors to our future liquidity will be our ability to successfully use our expertise and our technology to generate revenues in various ways, including commercial operations, government contracts, joint ventures and licenses. Because of the uncertainty of these factors, we may need to raise funds to meet our working capital needs.

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

required for long term commercialization. Cryogenic systems, including cryocoolers and cryostats, have been developed but will also need to be cost optimized as HTS wire becomes available in volume. We have plans to further reduce the manufacturing cost of our products, but there is no assurance that our future cost reduction efforts will keep pace with price erosion. We will need to further reduce our manufacturing costs through engineering improvements and economies of scale in production and purchasing in order to achieve adequate gross margins. We may not be able to achieve the required product cost savings at a rate needed to keep pace with competitive pricing pressure. Additionally, we may be forced to discount future orders. If we fail to reach our cost saving objectives or we are required to offer future discounts, our business may be harmed.

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

Our current wireless products compete on the basis of performance, functionality, reliability, pricing, quality, and compliance with industry standards. With respect to our HTS materials, we compete with American Superconductor, SuperPower and THEVA, among others. Our current and potential wireless competitors include conventional RF filter manufacturers, CommScope, Powerwave, and RFS and both established and newly emerging companies developing similar or competing HTS technologies. In addition, we currently supply components and license technology to several companies that may eventually decide to manufacture or design their own HTS components, rather than purchasing or licensing our technology. If we are unable to compete successfully against our current or future competitors, then our business and results of operations will be adversely affected.

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

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

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

We must overcome technical challenges to commercialize our HTS wire. If we are able to so, we will need to attain customer acceptance of our HTS wire, and we cannot ensure that such acceptance will occur. We will have to continue to develop and integrate advances to our core technologies. We will also need to continue to develop and integrate advances in complementary technologies. We cannot guarantee that our development efforts will not be rendered obsolete by research efforts and technological advances made by others. Wireless telecommunication equipment is characterized by rapidly advancing technology. Our wireless business success depends upon our ability to keep pace with advancing wireless technology, including materials, processes and industry standards.

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

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

the lack of any contractual obligation by our customers to purchase their forecasted demand for our products;

variations in the timing, cancellation, or rescheduling of customer orders and shipments; and

high fixed expenses that may disproportionately impact operating expenses, especially during a quarter with a sales shortfall. The nature of our business requires that we promptly ship products after we receive orders. This means that we typically do not have a significant backlog of unfilled orders at the start of each quarter. Our major customers

Table of Contents

generally have no contractual obligation to purchase forecasted amounts and may cancel orders, change delivery schedules or change the mix of products ordered with minimal notice and minimal penalty. As a result of these factors, we may not be able to accurately predict our quarterly sales. Any shortfall in sales relative to our quarterly expectations or any delay of customer orders would adversely affect our revenues and results of operations.

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

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

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

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

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

The United States and global economies continue to experience a financial downturn, with some financial and economic analysts predicting that the global economy may be entering into a prolonged economic downturn characterized by high unemployment, limited availability of credit, increased rates of default and bankruptcy and decreased consumer and business spending. These developments could negatively affect our business, operating results and financial condition in a number of ways. For example, current or potential customers may delay or decrease spending with us or may not pay us, or may delay paying us for previously purchased products. In addition, this downturn has had, and may continue to have, an unprecedented negative impact on the global credit markets. Credit has tightened significantly, resulting in financing terms that are less attractive to borrowers, and in many cases, the unavailability of certain types of debt financing. If this crisis continues or worsens, and if we are required to obtain financing in the near term to meet our working capital or other business needs, we may not be able to obtain that financing. Further, even if we are able to obtain the financing we need, it may be on terms that are not favorable to us, with increased financing costs and restrictive covenants.

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

A number of components used in our products are available from a limited number of outside suppliers due to unique designs as well as certain quality and performance requirements. There are components that we source from a single vendor due to the present volume. In addition, key components of our conventional products are

Table of Contents

manufactured by a sole foreign manufacturer. Our reliance on sole or limited source suppliers involves certain risks and uncertainties, many of which are beyond our control. These include the possibility of a shortage or the discontinuation of certain key components. Any reduced availability of these parts or components when required could impair our ability to manufacture and deliver our systems on a timely basis and result in the delay or cancellation of orders, which could harm our business.

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

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

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

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

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

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

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

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

Our products incorporate a number of technologies, including high-temperature superconductor technology, technology related to other materials, and electronics technologies. Our patent positions, and that of other companies using high-temperature superconductor technology, is uncertain and there is significant risk that

Table of Contents

others, including our competitors or potential competitors, have obtained or will obtain patents relating to our products or technologies or products or technologies planned to be introduced by us.

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

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

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

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

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

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

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

Regulatory changes could substantially harm our business.

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

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

We may explore opportunities to acquire companies or technologies in the future. Other than the acquisition of Conductus, Inc. in 2002, we have not made any such acquisitions or investments to date and, therefore, our

Table of Contents

ability as an organization to make acquisitions or investments is unproven. An acquisition entails many risks, any of which could adversely affect our business, including:

failure to integrate operations, services and personnel;

the price paid may exceed the value eventually realized;

loss of share value to existing stockholders as a result of issuing equity securities to finance an acquisition;

potential loss of key employees from either our then current business or any acquired business;

entering into markets in which we have little or no prior experience;

diversion of financial resources and management's attention from other business concerns;

assumption of unanticipated liabilities related to the acquired assets; and

the business or technologies acquired or invested in may have limited operating histories and may be subjected to many of the same risks to which we are exposed.

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

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

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

Compliance with environmental regulations could be especially costly due to the hazardous materials used in the manufacturing process. In addition, we could incur expenditures related to hazardous material accidents.

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

In addition, although we believe that our safety procedures for the handling and disposing of hazardous materials comply with the standards prescribed by state and federal regulations, there is always the risk of accidental contamination or injury from these materials. To date, we have not incurred substantial expenditures for preventive action with respect to hazardous materials or for remedial action with respect to any

Edgar Filing: SUPERCONDUCTOR TECHNOLOGIES INC - Form 10-K

hazardous materials accident, but the use and disposal of hazardous materials involves risk that we could incur substantial expenditures for such preventive or remedial actions. If such an accident were to occur, we could be held liable for resulting damages. The liability in the event of an accident or the costs of such remedial actions could exceed our resources or otherwise have a material adverse effect on our financial condition, results of operations or cash flows.

Table of Contents

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

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

Our international operations expose us to certain risks.

In 2007, we formed a joint venture with BAOLI to manufacture and sell our SuperLink interference elimination solution in China. In addition to facing many of the risks faced by our domestic business, if that joint venture or any other international operation we may have is to be successful, we (together with any joint venture partner) must recruit the necessary personnel and develop the facilities needed to manufacture and sell the products involved, learn about the local market (which may be significantly different from our domestic market), build brand awareness among potential customers and compete successfully with local organizations with greater market knowledge and potentially greater resources than we have. We must also obtain a number of critical governmental approvals from both the United States and the local country governments on a timely basis, including those related to any transfers of our technology. We must establish sufficient controls on any foreign operations to ensure that those operations are operated in accordance with our interests, that our intellectual property is protected and that our involvement does not inadvertently create potential competitors. There can be no assurance that these conditions will be met. Even if they are met, the process of building our international operations could divert financial resources and management attention from other business concerns. Finally, our international operations will also be subject to the general risks of international operations, such as:

changes in exchange rates;

international political and economic conditions;

changes in government regulation in various countries;

trade barriers;

adverse tax consequences; and

costs associated with expansion into new territories.

Risks Related to Our Common Stock

Our stock price is volatile.

The market price of our common stock has been, and we expect will continue to be, subject to significant volatility. The value of our common stock may decline regardless of our operating performance or prospects. Factors affecting our market price include:

our perceived prospects;

Edgar Filing: SUPERCONDUCTOR TECHNOLOGIES INC - Form 10-K

progress or any lack of progress(or perceptions related to progress) in timely overcoming the remaining substantial technical and commercial challenges related to our HTS wire initiative;

variations in our operating results and whether we have achieved key business targets;

changes in, or our failure to meet, earnings estimates;

changes in securities analysts' buy/sell recommendations;

Table of Contents

differences between our reported results and those expected by investors and securities analysts;

announcements of new contracts by us or our competitors;

market reaction to any acquisitions, joint ventures or strategic investments announced by us or our competitors; and

general economic, political or stock market conditions.

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

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

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

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

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

As of December 31, 2011, we had outstanding options exercisable for an aggregate of 735,701 shares of common stock at a weighted average exercise price of \$6.64 per share. In February 2012, we sold warrants to purchase up to 5,033,414 shares of our common stock at an exercise price of \$1.35 per share. The warrants are exercisable at any time but not prior to the six-month anniversary of the issuance of the warrants and have a five-year term. We have registered the issuance of all the shares issuable upon exercise of the options and warrants, and they will be freely tradable by the exercising party upon issuance. The holders may sell these shares in the public markets from time to time, without limitations on the timing, amount or method of sale. As our stock price rises, the holders may exercise their warrants and options and sell a large number of shares. This could cause the market price of our common stock to decline.

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

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

In addition, our board of directors has the authority to issue up to 2,000,000 shares of preferred stock and to determine the terms, rights and preferences of this preferred stock, including voting rights of those shares,

Table of Contents

without any further vote or action by the stockholders. At March 10, 2012, 1,388,477 shares of preferred stock remained unissued. The rights of the holders of common stock may be subordinate to, and adversely affected by, the rights of holders of preferred stock that may be issued in the future. The issuance of preferred stock could also make it more difficult for a third party to acquire a majority of our outstanding voting stock, even at a premium over our public trading price.

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

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

We have never declared or paid cash dividends on our common stock and do not plan to pay any cash dividends in the near future. Our current policy is to retain all funds and earnings for use in the operation and expansion of our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We lease all of our properties. All of our operations, including our manufacturing facility, are located in an industrial complex in Santa Barbara, California. We occupy approximately 71,000 square feet in this complex under a long-term lease that expires in November 2016. Commencing January 1, 2012 and expiring in November 2016 we sublet 26,000 square feet of our Santa Barbara facility and leased a 35,000 square foot facility in Austin, Texas that expires in April 2017. Although we currently have excess capacity, we believe these facilities can be managed in a flexible and cost effective manner and are adequate to meet current and reasonably anticipated needs for approximately the next two years.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market for Common Stock**

Our common stock is traded on the NASDAQ Capital Market under the symbol SCON. The following table shows the high and low sales prices for our common stock as reported by NASDAQ for each calendar quarter in the last two fiscal years:

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

Holders of Record

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

Dividends

We have never paid cash dividends and intend to employ all available funds in the development of our business. We have no plans to pay cash dividends in the near future.

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

Sales of Unregistered Securities

We did not conduct any offerings of equity securities during the fourth quarter of 2011 that were not registered under the Securities Act of 1933.

Repurchases of Equity Securities

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

Securities Authorized for Issuance Under Equity Compensation Plans

Table of Contents**Equity Compensation Plan Information**

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

Stock Performance Graph

The stock performance graph and related information presented below shall not be deemed soliciting material or filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934, as amended (the Exchange Act), or to the liabilities of Section 18 of the Exchange Act, and shall not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended (the Securities Act), or the Exchange Act, except to the extent that we specifically request that such information be treated as soliciting material or specifically incorporate it by reference into such a filing.

The graph and table below compare the cumulative total stockholders' return on our common stock since December 31, 2006 with the Nasdaq Composite Index, and the Nasdaq Telecommunications Index over the same period (assuming the investment of \$100 in our common stock and in the two other indices, and reinvestment of all dividends).

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

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The information set forth below is not necessarily indicative of results of future operations and should be read in conjunction with our Financial Statements and Notes thereto appearing in Item 15 of Part IV of this Report and Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

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

Table of Contents

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes many forward-looking statements. For cautions about relying on such forward looking statements, please refer to the section entitled "Forward Looking Statements" at the beginning of this Report immediately prior to Item 1.

General

We are a leading company in developing and commercializing high temperature superconductor (HTS) materials and related technologies. HTS materials can substantially improve the performance characteristics of electrical systems, reducing power loss, lowering heat generation, and decreasing electrical noise.

Results of Operations

2011 Compared to 2010

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

Net commercial product revenues decreased by \$3.1 million, or 48%, to \$3.4 million in 2011 from \$6.5 million in 2010. The decrease is the result of lower sales volume for all of our products. We sell our SuperLink and other performance enhancement products to large North American wireless operators. As our customers continue to invest in 4G networks, spending on 3G data networks, where our products are deployed, has become a secondary priority. This market dynamic has and we believe will continue to impact our commercial revenue. Sales prices for our products were essentially unchanged in 2011 from 2010. Our two largest customers accounted for 96% and 92% of our net commercial revenues in 2011 and 2010, respectively. These customers generally purchase products through non-binding commitments with minimal lead-times. Consequently, our commercial product revenues can fluctuate dramatically from quarter to quarter based on changes in our customers' capital spending patterns.

Government contract revenues decreased by \$1.9 million, or 95%, to \$0.1 million in 2011 from \$2.0 million in 2010. This decrease was principally the result of the completion of a large contract. This reduced level of government contract revenue has been the planned result of our using more of our limited engineering resources on our commercial projects.

Cost of commercial product revenues includes all direct costs, manufacturing overhead and provision for excess and obsolete inventories. The cost of commercial product revenues totaled \$5.4 million for 2011 compared to \$7.7 million for 2010, a decrease of \$2.3 million, or 30%. The lower costs resulted principally from lower production as a result of lower sales. Our expense provision for obsolete inventories totaled \$717,000 in 2011 compared to \$360,000 in 2010.

Our cost of sales includes both variable and fixed cost components. The variable component consists primarily of materials, assembly and test labor, overhead, which includes equipment and facility depreciation, transportation costs and warranty costs. The fixed component includes test equipment and facility depreciation, purchasing and procurement expenses and quality assurance costs. Given the fixed nature of such costs, the absorption of our production overhead costs into inventory decreases, and the amount of production overhead variances expensed to cost of sales increases, as production volumes decline since we have fewer units to absorb our overhead costs against. Conversely, the absorption of our production overhead costs into inventory increases, and the amount of production overhead variances expensed to cost of sales decreases, as production volumes increase since we have more units to absorb our overhead costs against. As a result, our gross profit margins generally decrease as revenue and production volumes decline due to lower sales volume and higher amounts of

Table of Contents

production overhead variances expensed to cost of sales; and our gross profit margins generally increase as our revenue and production volumes increase due to higher sales volume and lower amounts of production overhead variances expensed to cost of sales. Our inventory is valued at the lower of its actual cost or the current estimated market value of the inventory. We review inventory quantities on hand and on order and record, on a quarterly basis, a provision for excess and obsolete inventory and/or vendor cancellation charges related to purchase commitments. If the results of the review determine that a write-down is necessary, we recognize a loss in the period in which the loss is identified, whether or not the inventory is retained.

The following is an analysis of our commercial product gross profit margins for 2011 and 2010:

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

We had a negative gross margin of \$2.0 million in 2011 from the sale of our commercial products compared to a negative gross margin of \$1.2 million in 2010. The negative gross margin in 2011 was primarily because the reduced level of commercial sales was insufficient to cover our fixed manufacturing overhead costs. Our gross margins were also adversely impacted by a \$717,000 charge for excess and obsolete inventory in 2011 and a similar charge of \$360,000 in 2010. We regularly review inventory quantities on hand and provide an allowance for excess and obsolete inventory based on numerous factors, including sales backlog, historical inventory usage, forecasted product demand and production requirements for the next twelve months.

Cost of government and other contract revenue totaled \$79,000 in 2011 compared to \$1.2 million in 2010, a decrease of \$1.1 million, or 93%. Because these contracts are generally priced on a cost plus basis, declines in revenue generally result in declines in associated costs. As a percentage of government revenue, government and other contract expenses increased from 59% in 2010 to 95% in 2011 due to the very low sales level in 2011 and the fixed overhead costs required for delivery.

Research and development expenses relate to development of new products, including our wireless commercial products. These expenses also include design expenses associated with reducing the cost and improving the manufacturability of our existing products. Research and development expenses totaled \$5.3 million in 2011 compared to \$5.1 million in 2010, an increase of \$0.2 million, or 5%. In 2011, we decided to use certain of our own technologies and we therefore voluntarily terminated a patent license we had with a third party along with certain other related intangible assets. As a result, capitalized cost of \$0.8 million was expensed during 2011. Taking into account the aforementioned expense, research and development expenses decreased for 2011 as the result of reduced efforts for improving the manufacturability of our wireless products. We have relatively fixed engineering resources, and our research and development expenses vary inversely with the amount of those resources allocated to our government contract activities.

Selling, general and administrative expenses totaled \$6.3 million in 2011 compared to \$6.7 million in 2010, a decrease of \$0.4 million, or 5%. The lower expenses in 2011 resulted primarily from a reduction in employees in the third quarter of 2011.

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

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

Table of Contents

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

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

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

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

2010 Compared to 2009

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

Net commercial product revenues decreased by \$691,000, or 10%, to \$6.5 million in 2010 from \$7.2 million in 2009. The decrease is the result of lower sales volume for our SuperLink products. Average sales prices for our products were essentially unchanged in 2010 from 2009. Our two largest customers accounted for 92% of our net commercial revenues in 2010 and 2009. These customers generally purchase products through non-binding commitments with minimal lead-times. Consequently, our commercial product revenues can fluctuate dramatically from quarter to quarter based on changes in our customers' capital spending patterns.

Government contract revenues decreased by \$1.6 million, or 44%, to \$2.0 million in 2010 from \$3.6 million in 2009. This decrease was principally the result of the completion of a large contract.

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

Our cost of sales includes both variable and fixed cost components. The variable component consists primarily of materials, assembly and test labor, overhead, which includes equipment and facility depreciation, transportation costs and warranty costs. The fixed component includes test equipment and facility depreciation, purchasing and procurement expenses and quality assurance costs. Given the fixed nature of such costs, the absorption of our production overhead costs into inventory decreases, and the amount of production overhead variances expensed to cost of sales increases, as production volumes decline since we have fewer units to absorb our overhead costs against. Conversely, the absorption of our production overhead costs into inventory increases, and the amount of production overhead variances expensed to cost of sales decreases, as production volumes increase since we have more units to absorb our overhead costs against. As a result, our gross profit margins generally decrease as revenue and production volumes decline due to lower sales volume and higher amounts of production overhead variances expensed to cost of sales; and our gross profit margins generally increase as our revenue and production volumes increase due to higher sales volume and lower amounts of production overhead variances expensed to cost of sales. Our inventory is valued at the lower of its actual cost or the current estimated market value of the inventory. We review inventory quantities on hand and on order and record, on a quarterly basis, a provision for excess and obsolete inventory and/or vendor cancellation charges related to purchase commitments. If the results of the review determine that a write-down is necessary, we recognize a loss in the period in which the loss is identified, whether or not the inventory is retained.

The following is an analysis of our commercial product gross profit margins for 2010 and 2009:

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

Table of Contents

We had a negative gross margin of \$1.2 million in 2010 from the sale of our commercial products compared to a negative gross margin of \$1.9 million in 2009. The negative gross margin in 2010 was primarily because the reduced level of commercial sales was insufficient to cover our fixed manufacturing overhead costs. Our gross margins were also adversely impacted by a \$360,000 charge for excess and obsolete inventory in 2010 and a similar charge of \$282,000 in 2009. Gross margins were favorably impacted by \$261,000 in 2009 by the sale of previously written-off inventory. There was no similar benefit in 2010. We regularly review inventory quantities on hand and provide an allowance for excess and obsolete inventory based on numerous factors, including sales backlog, historical inventory usage, forecasted product demand and production requirements for the next twelve months.

Cost of government and other contract revenue totaled \$1.2 million in 2010 compared to \$2.6 million in 2009, a decrease of \$1.4 million, or 54%. Because these contracts are generally priced on a cost plus basis, declines in revenue generally result in declines in associated costs. As a percentage of government revenue, government and other contract expenses decreased from 71% in 2009 to 59% in 2010 because of different cost recognition criteria on one of our 2010 cost-plus contracts.

Research and development expenses totaled \$5.1 million in 2010 compared to \$4.4 million in 2009, an increase of \$0.7 million, or 15%. The increase is the result of new commercial products development effort. We have relatively fixed engineering resources, and our research and development expenses vary inversely with the amount of those resources allocated to our government contract activities.

Selling, general and administrative expenses totaled \$6.7 million in 2010 compared to \$6.9 million in 2009, a decrease of \$0.2 million, or 3%. The lower expenses in 2010 resulted primarily from a reduction in employees in the third quarter of 2010.

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

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

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

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

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

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

Liquidity and Capital Resources

Cash Flow Analysis

As of December 31, 2011, we had working capital of \$7.2 million, including \$6.2 million in cash and cash equivalents, compared to working capital of \$7.7 million at December 31, 2010, which included \$6.1 million in cash and cash equivalents. We currently invest our excess cash in short-term, investment-grade, money-market instruments with maturities of three months or less. Our investments have no exposure to the auction rate securities market.

Table of Contents

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

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

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

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

Financing Activities

We have historically financed our operations through a combination of cash on hand, equipment lease financings, available borrowings under bank lines of credit and both private and public equity offerings.

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

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

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

Contractual Obligations and Commercial Commitments

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

Table of Contents

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

Patents and Licenses. We have entered into a licensing agreement requiring royalty payments ranging from 0.5% to 1.0% of specified product sales. The agreement contains a provision for the payment of guaranteed or minimum royalty amounts. Typically, the licensor can terminate our license if we fail to pay minimum annual royalties.

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

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

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

Capital Expenditures

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

Future Liquidity

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

At December 31, 2011 we had \$6.2 million in cash. Our cash resources may not be sufficient to fund our business for at least the next twelve months. We believe the key factors to our future liquidity will be our ability to successfully use our expertise and our technology to generate revenues in various ways, including commercial operations, government contracts, joint ventures, licenses and we plan to leverage our leadership in superconducting technologies, extensive intellectual property, and HTS manufacturing expertise to develop and produce HTS wire. Because of the uncertainty of these factors, we may need to raise funds to meet our working capital needs. (See Note 13)

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

Table of Contents

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

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

Net Operating Loss Carryforward

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

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

Section 382 of the Internal Revenue Code imposes an annual limitation on the utilization of net operating loss carryforwards based on a statutory rate of return (usually the applicable federal funds rate, as defined in the Internal Revenue Code) and the value of the corporation at the time of a change of ownership as defined by Section 382. We had changes in ownership in August 1999, December 2002 and June 2009. In addition, we acquired the right to Conductus' net operating losses, which are also subject to the limitations imposed by Section 382. Conductus underwent four ownership changes, which occurred in February 1999, February 2001, December 2002 and June 2009. Therefore, the ability to utilize Conductus' and our net operating loss carryforwards of \$87.6 million and \$70.8 million, respectively, which were incurred prior to the 2002 ownership changes will be subject in future periods to annual limitations of \$1.3 million and \$0.7 million, respectively. With respect to years 2003 thru 2008, our consolidated net operating loss carryforwards of \$119.2 million will be subject to annual limitation of \$3.8 million. Net operating losses incurred by us subsequent to the ownership changes totaled \$30.8 million and are not subject to this limitation. An additional \$3.8 million in losses were released from limitation during 2011 under Section 382. No changes of ownership occurred in 2011 for purposes of Section 382.

Market Risk

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

Table of Contents

At December 31, 2011, we had approximately \$5.1 million invested in a money market account yielding approximately 0.1%. Assuming no yield on this money market account and no liquidation of principal for the year, our total interest income would decrease by approximately \$5,000 per annum.

Inflation

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

Critical Accounting Policies and Estimates

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

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

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

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

Table of Contents

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

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

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

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

Stock-based employee compensation cost is recognized using the fair-value based method for all awards granted on or after the beginning of 2006. We issue stock option awards and restricted share awards to employees and to non-employee directors under our stock-based incentive plans. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. Compensation cost related to restricted share awards is recorded based on the market price of our common stock on the grant date. We recognize compensation expense over the expected vesting period on a straight-line basis from the grant date.

Our valuation allowance against the deferred tax assets is based on our assessments of historical losses and projected operating results in future periods. If and when we generate future taxable income in the U.S. against which these tax assets may be applied, some portion or all of the valuation allowance would be reversed and an increase in net income would consequently be reported in future years.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not applicable.

Table of Contents

ITEM 9A. CONTROLS AND PROCEDURES

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

We have established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). As of the end of the period covered by this report we carried out an evaluation under the supervision and with the participation of our management, including the our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities and Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

There were no changes in our internal controls over financial reporting during the fourth quarter of the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Our management assessed the effectiveness of our internal controls over financial reporting as of December 31, 2011. In making its assessment of the effectiveness of our internal controls over financial reporting, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on these criteria, our management has concluded that, as of December 31, 2011, our internal control over financial reporting is effective.

ITEM 9B. OTHER INFORMATION

None.

Table of Contents

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to our Proxy Statement for the 2012 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our year ended December 31, 2011.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our Proxy Statement for the 2012 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our year ended December 31, 2011.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to our Proxy Statement for the 2012 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our year ended December 31, 2011.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to our Proxy Statement for the 2012 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our year ended December 31, 2011.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to our Proxy Statement for the 2012 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our year ended December 31, 2011.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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

	Page
<u>Reports of Independent Registered Public Accounting Firms</u>	F-1
<u>Consolidated Balance Sheets as of December 31, 2011 and 2010</u>	F-3
<u>Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009</u>	F-4
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2011, 2010 and 2009</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7
2. <u>Financial Statement Schedule Covered by the Foregoing Report of Independent Registered Public Accounting Firm.</u>	

<u>Schedule II Valuation and Qualifying Accounts</u>	F-23
All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.	

3. Exhibits

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

Table of Contents

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

Table of Contents

Number	Description of Document
10.28	Third Amendment to Lease between the Registrant and 1200 Enterprises LLC dated October 26, 2011. (25)
10.29	Lease Agreement between the Registrant and Prologis Texas III LLC dated December 5, 2011. (25)
10.30	Agreement between Registrant and Hunchun BaoLi Communication Co., Ltd. (BAOLI) dated August 17, 2007. (15)
10.31	First Amendment to Agreement between Registrant and BAOLI dated November 1, 2007 (16)
10.32	Second Amendment to Agreement between Registrant and BAOLI dated January 7, 2008. (16)
10.33	Framework Agreement between Registrant and BAOLI dated November 8, 2007. (16)
10.34	Sino-Foreign Equity Joint Venture Contract between Superconductor Investments (Mauritius) Limited and BAOLI dated December 8, 2007 (Exhibit A to Framework Agreement with BAOLI). (16)
10.35	Form of Technology and Trademark License Agreement between Superconductor Investments (Mauritius) Limited, Registrant and BAOLI Superconductor Technology Co, Ltd (Exhibit B to Framework Agreement). (16)
10.36	Form of Common Stock Purchase Agreement dated February 3, 2011 (22)
10.37	Form of Securities Purchase Agreement dated February 20, 2012 (23)
10.38	Form of Securities Purchase Agreement dated February 16, 2012 (24)
14	Code of Business Conduct and Ethics. (12)
21	List of Subsidiaries. (25)
23.1	Consent of Marcum, LLP, Independent Registered Public Accounting Firm. (25)
23.2	Consent of Stonefield Josephson Inc, Independent Registered Public Accounting Firm. (25)
31.1	Statement of CEO Pursuant to 302 of the Sarbanes-Oxley Act of 2002. (25)
31.2	Statement of CFO Pursuant to 302 of the Sarbanes-Oxley Act of 2002. (25)
32.1	Statement of CEO Pursuant to 906 of the Sarbanes-Oxley Act of 2002. (25)
32.2	Statement of CFO Pursuant to 906 of the Sarbanes-Oxley Act of 2002. (25)
101	Financials provided in XBRL format
**	Confidential treatment has been previously granted for certain portions of these exhibits.
***	This exhibit is a management contract or compensatory plan or arrangement.

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

Table of Contents

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

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

Table of Contents

Report of Independent Registered Public Accounting Firm

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

Santa Barbara, California

We have audited the accompanying consolidated balance sheets of Superconductor Technologies, Inc. (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15(a)(2) as of and for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits of the consolidated financial statements included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Superconductor Technologies, Inc. as of December 31, 2011, and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Further, the accompanying schedule is, in our opinion, fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred significant net losses since its inception and has an accumulated deficit of \$251,016,000 and expects to incur substantial additional losses and costs. The foregoing matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Marcum LLP

Los Angeles, California

March 30, 2012

F-1

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Audit Committee of the

Board of Directors and Stockholders of Superconductor Technologies, Inc.

Santa Barbara, California

We have audited the accompanying consolidated balance sheets of Superconductor Technologies, Inc. as of December 31, 2009, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2009. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15(a)(2) as of and for the two years ended December 31, 2009. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Further, the accompanying schedule is, in our opinion, fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the company as a going concern. As discussed in Note 2, the Company has incurred significant net losses since its inception and has an accumulated deficit of \$225,665,000 as of December 31, 2009 and expects to incur substantial additional losses and costs. The foregoing matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 2 of the accompanying financial statements. These consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ STONEFIELD JOSEPHSON, INC.

Los Angeles, California

March 16, 2010

Table of Contents**SUPERCONDUCTOR TECHNOLOGIES INC.****CONSOLIDATED BALANCE SHEETS**

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

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

Table of Contents

SUPERCONDUCTOR TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

Table of Contents**SUPERCONDUCTOR TECHNOLOGIES INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

	Convertible Preferred Stock		Common Stock		Capital in Excess of Par Value	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance at December 31, 2008	611,523	\$ 1,000	17,869,030	\$ 18,000	\$ 230,219,000	\$ (212,686,000)	\$ 17,552,000
Issuance of common stock (net of costs)			3,752,005	4,000	10,452,000		10,456,000
Stock-based compensation			890,998	1,000	1,211,000		1,212,000
Net loss						(12,979,000)	(12,979,000)
Balance at December 31, 2009	611,523	1,000	22,512,033	23,000	241,882,000	(225,665,000)	16,241,000
Issuance of common stock (net of costs)			4,600,000	5,000	6,032,000		6,037,000
Repurchase of common stock to satisfy withholding obligations			(181,982)		(573,000)		(573,000)
Stock-based compensation			287,357		1,159,000		1,159,000
Net loss						(11,968,000)	(11,968,000)
Balance at December 31, 2010	611,523	1,000	27,217,408	28,000	248,500,000	(237,633,000)	10,896,000
Issuance of common stock (net of costs)			5,443,000	5,000	12,397,000		12,402,000
Conversion of preferred stock to common stock	(46,881)		468,810				
Repurchase of common stock to satisfy withholding obligations			(179,636)		(303,000)		(303,000)
Stock-based compensation			412,699		1,563,000		1,563,000
Net loss						(13,383,000)	(13,383,000)
Balance at December 31, 2011	564,642	\$ 1,000	33,362,281	\$ 33,000	\$ 262,157,000	\$ (251,016,000)	\$ 11,175,000

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

Table of Contents**SUPERCONDUCTOR TECHNOLOGIES INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

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

Table of Contents

SUPERCONDUCTOR TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 The Company

Superconductor Technologies Inc. (together with our subsidiaries, we or us) was incorporated in Delaware on May 11, 1987. We develop and produce high temperature superconducting (HTS) materials and associated technologies. We have generated more than 100 patents as well as proprietary trade secrets and manufacturing expertise, providing interference elimination and network enhancement solutions to the commercial wireless industry. In addition, we are now leveraging our key enabling technologies, including radio frequency filtering, HTS materials and cryogenics, to pursue emerging opportunities in the electrical grid and in equipment platforms that utilize electrical circuits. We maintain our headquarters in Santa Barbara, California, however in January 2012 we took possession of a facility in Austin, Texas and anticipate we will move our HTS wire processes and our corporate headquarters to Austin. We will continue to maintain a presence in Santa Barbara for our existing research and development, certain business operations and commercial wireless business.

From 1987 to 1997, we were engaged primarily in research and development and generated revenues primarily from government research contracts. Since then, we have provided solutions for wireless infrastructure in the telecommunications industry. Our commercial product offerings are divided into the following three areas: SuperLink (high-temperature superconducting filters), AmpLink (high performance, ground-mounted amplifiers) and SuperPlex (high performance multiplexers). In addition, we have strategic initiatives for an HTS wire platform, RF filters and cryocoolers.

Our research and development contracts are used as a source of funds for our commercial technology development. We continue to be involved as either contractor or subcontractor on a number of contracts with the United States government. These contracts have been a significant source of revenues for us. For 2011, 2010 and 2009, government related contracts accounted for 2%, 23%, and 32%, respectively, of our net revenues.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

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

At December 31, 2011 we had \$6.2 million in cash. Our cash resources will not be sufficient to fund our business for the next 12 months. We believe the key factors to our future liquidity will be our ability to successfully use our expertise and our technology to generate revenues in various ways, including commercial operations, government contracts, joint ventures and licenses. Because of the uncertainty of these factors, we may need to raise funds to meet our working capital needs (*See Note 13*).

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

Table of Contents

Principles of Consolidation

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

Cash and Cash Equivalents

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

Accounts Receivable

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

Revenue Recognition

Commercial revenues are principally derived from the sale of our SuperLink, AmpLink and SuperPlex family of products and are recognized once all of the following conditions have been met: a) an authorized purchase order has been received in writing, b) the customer's credit worthiness has been established, c) shipment of the product has occurred, d) title has transferred, and e) if stipulated by the contract, customer acceptance has occurred and all significant vendor obligations, if any, have been satisfied.

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

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

Shipping and Handling Fees and Costs

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

Warranties

We offer warranties generally ranging from one to five years, depending on the product and negotiated terms of purchase agreements with our customers. Such warranties require us to repair or replace defective

Table of Contents

product returned to us during such warranty period at no cost to the customer. Our estimate for warranty related costs is recorded at the time of sale based on our actual historical product return rates and expected repair costs. Such costs have been within our expectations.

Indemnities

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

Research and Development Costs

Research and development costs are charged to operations as incurred and include salary, facility, depreciation and material expenses. Research and development costs incurred solely in connection with research and development contracts are charged to contract research and development expense. Other research and development costs are charged to other research and development expense. Additionally, in 2011, we decided to use certain of our own technologies and we therefore voluntarily terminated a patent license we had with a third party along with certain other related intangible assets. As a result, capitalized cost of \$0.8 million was charged to research and development during 2011.

Inventories

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

Property and Equipment

Property and equipment are recorded at cost. Equipment is depreciated using the straight-line method over their estimated useful lives ranging from three to five years. Leasehold improvements and assets financed under capital leases are amortized over the shorter of their useful lives or the lease term. Furniture and fixtures are depreciated over seven years. Expenditures for additions and major improvements are capitalized. Expenditures for minor tooling, repairs and maintenance and minor improvements are charged to expense as incurred. When property or equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Gains or losses from retirements and disposals are recorded in selling, general and administrative expenses. In 2011 and 2010 there were disposals totaling \$2,917,000 and \$12,000, respectively, and gains of \$269,000 and zero, respectively, from these disposals.

Patents, Licenses and Purchased Technology

Patents and licenses are recorded at cost and are amortized using the straight-line method over the shorter of their estimated useful lives or approximately seventeen years. Purchased technology acquired through the acquisition of Conductus, Inc. in 2002 was recorded at its estimated fair value and was amortized using the straight-line method over seven years ended in 2009.

Table of Contents

Long-Lived Assets

The realizability of long-lived assets is evaluated periodically as events or circumstances indicate a possible inability to recover the carrying amount. Long-lived assets that will no longer be used in the business are written off in the period identified since they will no longer generate any positive cash flows for us. Periodically, long lived assets that will continue to be used by us will need to be evaluated for recoverability. Such evaluation is based on various analyses, including cash flow and profitability projections. The analyses necessarily involve significant management judgment. In the event the projected undiscounted cash flows are less than net book value of the assets, the carrying value of the assets will be written down to their estimated fair value. We tested our long lived assets for recoverability during 2011 and determined there was no impairment.

Restructuring Expenses

Liability for costs associated with an exit or disposal activity are recognized when the liability is incurred.

Loss Contingencies

In the normal course of our business we are subject to claims and litigation, including allegations of patent infringement. Liabilities relating to these claims are recorded when it is determined that a loss is probable and the amount of the loss can be reasonably estimated. The costs of our defense in such matters are expensed as incurred. Insurance proceeds recoverable are recorded when deemed probable.

Income Taxes

We recognize deferred tax liabilities and assets based on the differences between the consolidated financial statement carrying amounts and the tax bases of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit (expense) results from the change in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all deferred tax assets will not be realized.

The guidance further clarifies the accounting for uncertainty in income taxes and sets a consistent framework to determine the appropriate level of tax reserve to maintain for uncertain tax positions. This interpretation uses a two-step approach wherein a tax benefit is recognized if a position is more-likely-than-not to be sustained. The amount of the benefit is then measured to be the highest tax benefit that is greater than 50% likely to be realized and sets out disclosure requirements to enhance transparency of our tax reserves.

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

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

Marketing Costs

All costs related to marketing and advertising our products are charged to operations as incurred or at the time the advertising takes place. Advertising costs were not material in each of the three years in the period ended December 31, 2011.

Net Loss Per Share

Basic and diluted net loss per share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding in each year. Net loss available to common

Table of Contents

stockholders is computed after deducting accumulated dividends on cumulative preferred stock, deemed dividends and accretion of redemption value on redeemable preferred stock for the period and beneficial conversion features on issuance of convertible preferred stock. Potential common shares are not included in the calculation of diluted loss per share because their effect is anti-dilutive.

Stock-based Compensation Expense

We have in effect several equity incentive plans under which stock options and awards have been granted to employees and non-employee members of the Board of Directors. We are required to estimate the fair value of share-based awards on the date of grant. The value of the award is principally recognized as expense ratably over the requisite service periods. We have estimated the fair value of stock options as of the date of grant using the Black-Scholes option pricing model. The Black-Scholes model considers, among other factors, the expected life of the award and the expected volatility of our stock price. We evaluate the assumptions used to value stock options on a quarterly basis. The fair values generated by the Black-Scholes model may not be indicative of the actual fair values of our equity awards, as it does not consider other factors important to those awards to employees, such as continued employment and periodic vesting.

The following table presents details of total stock-based compensation expense that is included in each functional line item on our consolidated statements of income:

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

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

Use of Estimates

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

Fair Value of Financial Instruments

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

Comprehensive Income

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

Table of Contents**Segment Information**

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

Certain Risks and Uncertainties

Our long-term prospects are dependent upon the continued and increased market acceptance for our products.

We currently sell most of our products directly to wireless network operators in the United States and our product sales have historically been concentrated in a small number of customers. In 2011, we had two customers that represented 79% and 14% of total net revenues and 34% of accounts receivable. In 2010, these two customers represented 58% and 12% of total net revenues and 31% of accounts receivable. The loss of or reduction in sales, or the inability to collect outstanding accounts receivable, from any of these customers could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

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

Note 3 Short Term Borrowings

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

Note 4 Income Taxes

We incurred a net loss in each year of operation since inception resulting in no current or deferred tax expense for 2011, 2010 or 2009.

The benefit for income taxes differs from the amount obtained by applying the federal statutory income tax rate to loss before benefit for income taxes for 2011, 2010 and 2009 as follows:

	2011	2010	2009
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
	%	%	%

Table of Contents

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

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

As of December 31, 2011, we had net operating loss carryforwards for federal and state income tax purposes of approximately \$308.4 million and \$181.5 million, respectively, which expire in the years 2012 through 2031. Of these amounts, \$70.8 million and \$16.5 million, respectively, resulted from the acquisition of Conductus. Under the Internal Revenue Code change of control limitations, a maximum of \$94.4 million and \$70.2 million, respectively, would be available for reduction of taxable income. Included in the net operating loss carryforwards are deductions related to stock options of approximately \$24.1 million and \$13.1 million for federal and California income tax purposes, respectively. To the extent net operating loss carryforwards are recognized for accounting purposes the resulting benefits related to the stock options will be credited to stockholders' equity. In addition, we had research and development and other tax credits for federal and state income tax purposes of approximately \$273,000 and \$230,000, respectively, which expire in the years 2029 through 2031.

Due to the uncertainty surrounding their realization, we have recorded a full valuation allowance against our net deferred tax assets. Accordingly, no deferred tax asset has been recorded in the accompanying balance sheets. The valuation allowance increased by \$5.1 million in 2011. The valuation allowance decreased by \$85.5 million in 2010 due to the revaluation of the deferred tax asset from loss carryforwards and tax credit carryforwards under the change in control provisions in the Internal Revenue Code. The valuation allowance had increased by \$3.0 million in 2009.

Section 382 of the Internal Revenue Code imposes an annual limitation on the utilization of net operating loss carryforwards based on a statutory rate of return (usually the applicable federal funds rate, as defined in the Internal Revenue Code) and the value of the corporation at the time of a change of ownership as defined by Section 382. We had changes in ownership in August 1999, December 2002, and June 2009. In addition, we acquired the right to Conductus' net operating losses, which are also subject to the limitations imposed by Section 382. Conductus underwent four ownership changes, which occurred in February 1999, February 2001, December 2002 and June 2009. Therefore, the ability to utilize Conductus' and our net operating loss carryforwards of \$87.6 million and \$70.8 million, respectively, which were incurred prior to the 2002 ownership changes, will be subject in future periods to annual limitations of \$1.3 million and \$700,000, respectively. With respect to years 2003 through 2008 our consolidated net operating loss carryforwards of \$119.2 million will be subject to annual limitation of \$3.8 million. Net operating losses incurred by us subsequent to the ownership changes totaled \$30.8 million and are not subject to this limitation. An additional \$3.8 million in losses were released from limitation during 2011 under Section 382. No changes of ownership occurred in 2011 for purposes of Section 382.

Note 5 Stockholders' Equity**Preferred Stock**

Pursuant to our Certificate of Incorporation, the Board of Directors is authorized to issue up to 2,000,000 shares of preferred stock (par value \$.001 per share) in one or more series and to fix the rights, preferences,

Table of Contents

privileges, and restrictions, including the dividend rights, conversion rights, voting rights, redemption price or prices, liquidation preferences, and the number of shares constituting any series or the designation of such series. In February 2008, we issued to Hunchun BaoLi Communication Co. Ltd. (BAOLI) and two related purchasers a total of (a) 3,101,361 shares of our common stock and (b) 611,523 shares of our Series A Preferred Stock (convertible into 6,115,230 shares of our common stock) in exchange for net proceeds of \$14.9 million in cash after offering costs of \$89,000, of which \$4.0 million was received in 2007. Subject to the terms and conditions of our Series A Preferred Stock and to customary adjustments to the conversion rate, each share of our Series A Preferred Stock is convertible into ten shares of our common stock so long as the number of shares of our common stock beneficially owned by BAOLI and affiliates following such conversion does not exceed 9.9% of our outstanding common stock. In September 2011, 46,881 of these preferred shares were converted into 468,810 shares of our common stock. Except for a preference on liquidation of \$.01 per share, each share of Series A Preferred Stock is the economic equivalent of the ten shares of common stock into which it is convertible. There is no beneficial conversion feature related to the conversion of the preferred shares, as the value of the common shares into which the preferred shares convert does not exceed the recorded amount of the preferred shares at date of issuance. Except as required by law, the Series A Preferred Stock does not have any voting rights.

Common Stock

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

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

Equity Awards

At December 31, 2011, we had three equity award option plans, 1998 and 1999 Stock Option Plans and the 2003 Equity Incentive Plan (collectively, the Stock Option Plans) although we can only grant new options under the 2003 Equity Incentive Plan. Under the 2003 Equity Incentive Plan, stock awards may be made to our directors, key employees, consultants, and non-employee directors and may consist of stock options, stock appreciation rights, restricted stock awards, performance awards, and performance share awards. Stock options must be granted at prices no less than the market value on the date of grant.

At December 31, 2011, 961,822 shares of common stock were available for future grants under the 2003 Equity Incentive Plan.

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

We granted stock options in 2011 and 2010. We did not grant stock options in 2009. The weighted average fair value of options has been estimated at the date of the grant using the Black-Scholes option-pricing model. The following are the significant weighted average assumptions used for estimating the fair value under our stock option plans:

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

Table of Contents

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

At December 31, 2011, 961,822 shares of common stock were available for future grants and options covering 1,376,513 shares were outstanding but not yet exercised. Option activity during the three years ended December 31, 2011 was as follows:

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

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

Range of		Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Exercisable	
					Number Exercisable	Weighted Average Exercise Price
Exercise Prices						
\$ 1.43	\$1.58	429,364	9.05	\$ 1.58	2,200	\$ 1.52
1.61	2.62	189,802	8.23	2.39	66,154	2.41
2.77	4.03	260,900	4.40	3.47	170,900	3.79
4.90	5.12	302,323	5.97	5.12	302,323	5.12
5.20	74.50	194,124	2.85	13.04	194,124	13.04
		1,376,513	6.50	\$ 4.44	735,701	\$ 6.64

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

Table of Contents

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

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

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

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

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

The impact of all equity awards on the consolidated statements of operations for 2011 was an expense of \$1.6 million and \$0.05 on basic and diluted earnings per share. The 2010 and 2009 impact on net income was an expense of \$1.2 million and \$0.05 and \$0.06 on basic and diluted earnings per share, respectively. No stock compensation cost was capitalized during the periods. The total compensation cost related to non-vested option awards not yet recognized was \$907,000 and the weighted-average period over which the cost is expected to be recognized is 1.5 years. The total compensation cost related to non-vested stock awards not yet recognized was \$519,000, and the weighted-average period over which the cost is expected to be recognized is 9 months.

Warrants

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

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

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

Table of Contents

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

Note 6 Employee Savings Plan

In December 1989, the Board of Directors approved a 401(k) savings plan (the 401(k) Plan) for our employees that became effective in 1990. Eligible employees may elect to make contributions under the terms of the 401(k) Plan; however, contributions by us are made at the discretion of management. We made no contribution to the 401(k) plan in 2011, and we made contributions of \$251,000 in 2010 and \$241,000 in 2009.

Note 7 Commitments and Contingencies***Operating Leases***

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

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

Patents and Licenses

We have entered into various licensing agreements requiring royalty payments ranging from 0.13% to 2.5% of specified product sales. Certain of these agreements contain provisions for the payment of guaranteed or minimum royalty amounts. In the event that we fail to pay any minimum annual royalties, these licenses may automatically be terminated. These royalty obligations terminate in 2011 to 2020. Royalty expenses totaled \$137,000 in 2011, \$183,000 in 2010, and \$161,000 in 2009. Under the terms of certain royalty agreements, royalty payments made may be subject to audit. There have been no audits to date and we do not expect any possible future audit adjustments to be significant.

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

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

Table of Contents

Note 8 Contractual Guarantees and Indemnities

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

Warranties

We establish reserves for future product warranty costs that are expected to be incurred pursuant to specific warranty provisions with our customers. Our warranty reserves are established at the time of sale and updated throughout the warranty period based upon numerous factors including historical warranty return rates and expenses over various warranty periods.

Intellectual Property Indemnities

We indemnify certain customers and our contract manufacturers against liability arising from third-party claims of intellectual property rights infringement related to our products. These indemnities appear in development and supply agreements with our customers as well as manufacturing service agreements with our contract manufacturers, are not limited in amount or duration and generally survive the expiration of the contract. Given that the amount of any potential liabilities related to such indemnities cannot be determined until an infringement claim has been made, we are unable to determine the maximum amount of losses that we could incur related to such indemnifications.

Director and Officer Indemnities and Contractual Guarantees

We have entered into indemnification agreements with our directors and executive officers, which require us to indemnify such individuals to the fullest extent permitted by Delaware law. Our indemnification obligations under such agreements are not limited in amount or duration. Certain costs incurred in connection with such indemnifications may be recovered under certain circumstances under various insurance policies. Given that the amount of any potential liabilities related to such indemnities cannot be determined until a lawsuit has been filed against a director or executive officer, we are unable to determine the maximum amount of losses that we could incur relating to such indemnities. Historically, any amounts payable pursuant to such director and officer indemnities have not had a material negative effect on our business, financial condition or results of operations.

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

General Contractual Indemnities/Products Liability

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

Contractual Contingency

We had a contract to deliver several custom products to a government contractor, with respect to which delivery of the product was delayed because we were unable to manufacture the products for technical reasons.

Table of Contents

In December 2008, new terms and amended specifications were agreed upon and in September 2009 we delivered and the customer accepted the products.

Note 9 Legal Proceedings

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

Note 10 Earnings Per Share

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

Since their impact would be anti-dilutive, our loss per common share does not include the effect of the assumed exercise or vesting of any of the following shares:

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

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

Note 11 Severance Charges

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

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

Balance Sheet Data:

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

Table of Contents

	December 31, 2011	December 31, 2010
Inventories:		
Raw materials	\$ 1,169,000	\$ 1,499,000
Work-in-process	338,000	511,000
Finished goods	1,887,000	1,316,000
Less: inventory reserves	(1,785,000)	(1,096,000)
	\$ 1,609,000	\$ 2,230,000

	December 31, 2011	December 31, 2010
Property and Equipment:		
Equipment	\$ 15,557,000	\$ 16,092,000
Leasehold improvements	6,675,000	6,786,000
Furniture and fixtures	387,000	404,000
	22,619,000	23,282,000
Less: accumulated depreciation and amortization	(19,748,000)	(21,948,000)
	\$ 2,871,000	\$ 1,334,000

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

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

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

Table of Contents

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

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

Supplemental Cash Flow Information:

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

Note 13 Subsequent Events

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

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

Table of Contents**Quarterly Financial Data (Unaudited)**

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

- (1) Our revenues vary from quarter to quarter as our customers provide minimal lead-time prior to the release of their purchase orders and have non-binding commitments to purchase from us.
- (2) Includes increased reserve for inventory obsolescence of \$0, \$0, \$63,000 and \$654,000, respectively, in the 2011 quarters and \$90,000, \$90,000, \$90,000 and \$90,000, respectively, in the 2010 quarters.

Table of Contents

Schedule Valuation and Qualifying Accounts

SUPERCONDUCTOR TECHNOLOGIES INC.**Schedule II Valuation and Qualifying Accounts**

	Beginning Balance	Additions Charged to Costs & Expenses	Charged to Other Accounts	Deductions	Ending Balance
<u>2011</u>					
Allowance for Uncollectible Accounts	\$ 2,000	\$	\$	\$	\$ 2,000
Reserve for Inventory Obsolescence	1,096,000	717,000		(28,000)	1,785,000
Reserve for Warranty	289,000	26,000		(90,000)	225,000
Deferred Tax Asset Valuation Allowance	35,100,000	5,058,000			40,158,000
<u>2010</u>					
Allowance for Uncollectible Accounts	11,000			(9,000)	2,000
Reserve for Inventory Obsolescence	828,000	413,000		(145,000)	1,096,000
Reserve for Warranty	255,000	78,000		(44,000)	289,000
Deferred Tax Asset Valuation Allowance (1)	120,609,000	(85,509,000)			35,100,000
<u>2009</u>					
Allowance for Uncollectible Accounts	75,000			(64,000)	11,000
Reserve for Inventory Obsolescence	861,000	611,000		(644,000)	828,000
Reserve for Warranty	261,000	43,000		(49,000)	255,000
Deferred Tax Asset Valuation Allowance	\$ 117,658,000	\$ 2,951,000	\$	\$	\$ 120,609,000

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

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 30th day of March 2012.

SUPERCONDUCTOR TECHNOLOGIES INC.

By: /s/ JEFFREY A. QUIRAM
Jeffrey A. Quiram

President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL THESE PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints William J. Buchanan, his attorney-in-fact, with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

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