

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

(Mark One)

X Quarterly report pursuant to Section 13 or 15(d) of the Securities  
--- Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 28, 1996

--- Transition report pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-21074

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

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

77-0158076  
(IRS Employer  
Identification No.)

460 WARD DRIVE, SUITE F  
SANTA BARBARA, CALIFORNIA 93111-2310  
(Address of principal executive offices & zip code)

(805) 683-7646  
(Registrant's telephone number including area code)

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 X No .  
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As of September 28, 1996 there were 6,065,348 shares of the Registrant's Common  
Stock outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SUPERCONDUCTOR TECHNOLOGIES INC.  
STATEMENT OF OPERATIONS  
(UNAUDITED)

	SEPT. 30, 1995	SEPT. 28, 1996	SEPT. 30, 1995	SEPT. 28, 1996
	-----	-----	-----	-----
Net revenues:				
Government contract revenues	\$ 2,039,000	\$ 2,159,000	\$ 5,199,000	\$ 5,053,000
Commercial product revenues	45,000	40,000	189,000	128,000
	-----	-----	-----	-----
Total net revenues	2,084,000	2,199,000	5,388,000	5,181,000
	-----	-----	-----	-----
Costs and expenses:				
Contract research and development	1,540,000	1,553,000	3,906,000	4,170,000
Other research and development and commercial	606,000	562,000	1,904,000	1,982,000
Selling, general and administrative	670,000	841,000	2,199,000	2,217,000
	-----	-----	-----	-----
Total costs and expenses	2,816,000	2,956,000	8,009,000	8,369,000
	-----	-----	-----	-----
Loss from operations	(732,000)	(757,000)	(2,621,000)	(3,188,000)
Interest income/(expense),Net	68,000	2,000	118,000	59,000
	-----	-----	-----	-----
Net loss	\$ (664,000)	\$ (755,000)	\$ (2,503,000)	\$ (3,129,000)
	=====	=====	=====	=====
Net loss per share	\$ (0.11)	\$ (0.12)	\$ (0.42)	\$ (0.51)
Weighted number of shares outstanding	6,069,160	6,092,226	6,020,405	6,076,770

(see accompanying notes)

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SUPERCONDUCTOR TECHNOLOGIES INC.  
BALANCE SHEET

ASSETS	DECEMBER 31, 1995	(Unaudited) SEPT. 28, 1996
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 2,430,000	\$ 1,229,000
Short-term investments	2,814,000	653,000
Accounts receivable	1,113,000	1,767,000
Inventory	228,000	397,000
Prepaid expenses and other current assets	248,000	598,000
	-----	-----
Total current assets	6,833,000	4,644,000
Note receivable from related party	150,000	150,000
Property and equipment, net	2,369,000	1,879,000
Patents and licenses, net of accumulated amortization of \$603,000 and \$781,000 respectively	2,280,000	2,218,000
Other assets, net of accumulated amortization of \$77,000 and \$86,000 respectively	46,000	37,000
	-----	-----
Total assets	11,678,000	8,928,000
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued expenses	733,000	1,306,000
Long-term debt --current	405,000	434,000
	-----	-----
Total current liabilities	1,138,000	1,740,000
Long-term debt	453,000	172,000
	-----	-----
Total liabilities	1,591,000	1,912,000
	-----	-----
Stockholders' equity:		
Preferred Stock, \$.001 par value, 2,000,000 shares authorized, none issued	0	0
Common Stock, \$.001 par value, 15,000,000 shares authorized, 6,026,065 and 6,065,348 shares issued and outstanding	6,000	6,000
Capital in excess of par value	30,122,000	30,180,000
Deficit accumulated during development stage	(20,041,000)	(23,170,000)
	-----	-----
Total stockholders' equity	10,087,000	7,016,000
	-----	-----
Total liabilities and stockholders' equity	\$ 11,678,000	\$ 8,928,000
	=====	=====

(see accompanying notes)

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SUPERCONDUCTOR TECHNOLOGIES INC.  
STATEMENT OF CASH FLOWS  
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  
(UNAUDITED)

	NINE MONTHS ENDED	
	SEPT. 30, 1995	SEPT. 28, 1996
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,503,000)	\$ (3,129,000)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation, and patent/license amortization	851,000	850,000
Compensation expense associated with stock options granted	52,000	12,000
Changes in assets and liabilities:		
Accounts receivable	(378,000)	(654,000)
Inventory	95,000	(169,000)
Prepaid expenses and other current assets	(21,000)	(350,000)
Patents and licenses	(402,000)	(116,000)
Accounts payable and accrued expenses	(328,000)	573,000
	-----	-----
Net cash used for operating activities	(2,634,000)	(2,983,000)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of short-term investments	4,575,000	2,161,000
Purchases of property and equipment	(377,000)	(173,000)
	-----	-----
Net cash provided by investing activities	4,198,000	1,988,000
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	134,000	39,000
Principal payments on long-term obligations	(242,000)	(291,000)
Proceeds from sale of common stock	93,000	46,000

Net cash used for financing activities	(15,000)	(206,000)
Net increase (decrease) in cash and cash equivalents	1,549,000	(1,201,000)
Cash and cash equivalents at beginning of period	2,452,000	2,430,000
Cash and cash equivalents at end of period	\$ 4,001,000	\$ 1,229,000

(see accompanying notes)

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SUPERCONDUCTOR TECHNOLOGIES INC.  
NOTES TO FINANCIAL STATEMENTS

A. GENERAL

The unaudited financial information furnished herein reflects all adjustments, consisting only of normal recurring adjustments, which in the opinion of management, are necessary to fairly state the Company's financial position, the results of its operations and its cash flows for the period presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates and such differences may be material to the financial statements. This quarterly report on Form 10-Q should be read in conjunction with the Company's Form 10-K for the year ended December 31, 1995. The results of operations for the three months and nine months ended September 28, 1996 are not necessarily indicative of results for the entire fiscal year ending December 31, 1996.

In fiscal year 1993, the Company adopted a 13-week quarter reporting period ending on the Saturday nearest the calendar quarter end. The Company's fiscal year end is December 31.

B. INVENTORIES

Inventories are stated at the lower of cost (first-in, first out) or market and consist of the following:

	December 31, 1995	September 28, 1996
Raw Materials	\$134,000	\$191,000
Work-in-Progress	84,000	185,000
Finished Goods	10,000	21,000
Total Inventory	\$228,000	\$397,000

C. PER SHARE INFORMATION

Net loss per common share has been computed using the weighted average number of common and common equivalent shares (when dilutive) outstanding during each period. The difference between primary and fully diluted net loss per common share is not significant.

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This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are in paragraphs two and three under "Results of Operations for the periods ended September 28, 1996 and September 30, 1995" and paragraphs three and four under "Liquidity and Capital Resources". Actual results could differ materially from those projected in the forward-looking statements as a result of the risk factors set forth herein.

RESULTS OF OPERATIONS FOR THE THREE-MONTHS AND NINE-MONTHS PERIODS ENDED  
SEPTEMBER 28, 1996 AND SEPTEMBER 30, 1995

Total net revenues increased by \$115,000, or 6%, from \$2,084,000 in the third quarter of 1995 to \$2,199,000 in the third quarter of 1996. This change is due to the increase in government contract revenue, as well as \$40,000 in commercial revenue generated by cryogenic cooler sales. Government contract revenue increased by \$120,000, or 6%, from \$2,039,000 in the third quarter of 1995 to \$2,159,000 in the third quarter of 1996. This increase is attributable to the receipt of government funding that had been delayed due to government shut downs during the first half of 1996. Net revenues decreased by \$207,000, or 4%, from \$5,388,000 in the first nine months of 1995 to \$5,181,000 in the first nine months of 1996. This revenue change is due to delays in government funding in the first half of the year.

A significant portion of the Company's revenues have historically consisted of government research and development contract revenues. In the third quarter of 1996 and for the nine months ended September 28, 1996, three major contracts accounted for over 60% of the government contract revenues. The Company expects that government revenue will continue to account for a substantial portion of total net revenues over the next several quarters. Government contract revenues have historically fluctuated from period to period. This variability is attributable to government contract budgeting and funding patterns, as the government procurement process is lengthy and may involve competing budget considerations, making the timing of the Company's revenues difficult to predict. Funds authorized by the government under any development contract may be reduced or eliminated at any time, and there can be no assurance that the Company will receive all or any part of the funds under any of the Company's existing government contracts not yet performed.

As the Company continues to focus on its commercial products, commercial revenues are expected to increase as a percentage of revenues over the next several quarters; however, there can be no assurance that such commercial revenue will increase. Furthermore, as the Company attempts to achieve commercialization of products, it could encounter seasonality or other currently unforeseen factors causing additional variability in its results.

Commercial product revenue decreased by \$5,000, or 11%, from \$45,000 in the third quarter of 1995 to \$40,000 in the third quarter of 1996. Commercial product revenue decreased by \$61,000, or 32%, from \$189,000 in the first nine months of 1995 to \$128,000 in the first nine months of 1996. These decreases are due primarily to the Company's decision to focus less on servicing external customer needs for films and more on expanding the development efforts of the Company's products for commercialization.

Contract research and development expenses increased by \$13,000 or 1%, from \$1,540,000 in the third quarter of 1995 to \$1,553,000 in the third quarter of 1996. This increase is attributable to the increase in contract revenue which is directly related to contract expenses. Contract research and development expenses increased by \$264,000 or 7%, from \$3,906,000 in the first nine months of 1995 to \$4,170,000 in the first nine months of 1996. This increase is due to an increase in contract overhead expenses as well as expenses incurred from a contract for which the revenue is not assured.

Other research and development expenses decreased by \$44,000 or 7%, from \$606,000 in the third quarter of 1995 to \$562,000 in the third quarter of 1996. This decrease is due to research and development efforts which expenses were funded under government contracts focused on commercialization of the Company's

product, and therefore, were classified as contract research and development expenses. Other research and development expenses increased by \$78,000 or 4%, from \$1,904,000 in the first nine months of 1995 to \$1,982,000 in the first nine months of 1996. This increase is attributed to the expanded efforts toward commercialization in the areas of wireless communications, cryocooling and high-speed computing.

Selling, general and administrative expenses increased by \$171,000 or 26%, from \$670,000 in the third quarter of 1995 to \$841,000 in the third quarter of 1996. This increase is primarily attributable to \$67,000 of start-up costs for Cryo-Asia, the joint venture with Alantac (see Part II, Item 5. Other Information) as well as expenses of \$93,000 which were incurred in the secondary offering and deemed not to have value in any future offering process. However, the Company still has a registration statement on file with the SEC and is proceeding with a public offering. Selling, general and administrative expenses increased by \$18,000 or 1%, from \$2,199,000 in the first nine months of 1995 to \$2,217,000 in the first nine months of 1996.

Interest income decreased by \$71,000 or 79%, from \$90,000 in the third quarter of 1995 to \$19,000 in the third quarter of 1996. Interest income decreased by \$129,000 or 53%, from \$245,000 in the first nine months of 1995 to \$116,000 in the first nine months of 1996. The reduction in interest income is primarily due to a decline in the interest-earning investment balances during these periods as these funds have been utilized to fund operations.

Interest expense decreased by \$5,000 or 23%, from \$22,000 in the third quarter of 1995 to \$17,000 in the third quarter of 1996. Interest expense decreased by \$70,000 or 55%, from \$127,000 in the first nine months of 1995 to \$57,000 in the first nine months of 1996. These decreases over both periods are due to the reduction in the Company's long-term portion of note payable and capitalized lease obligations.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents and short-term investments declined by \$3,362,000 or 64%, from \$5,244,000 on December 31, 1995 to \$1,882,000 on September 28, 1996. The decrease is primarily attributable to funding operating losses of \$3.1 million and an increase in inventory of \$169,000.

The Company's principal resource commitments at September 28, 1996 consist of accounts payable and accrued employee compensation of \$1,053,000 and \$253,000, respectively, and approximately \$606,000 of equipment financing commitments.

The Company believes that its existing cash, cash equivalents and short-term investments, together with revenue from operations, should provide sufficient resources to meet its current anticipated liquidity and capital expenditure requirements for at least the next 12 months.

To date, the Company has been principally involved in research and development activities, and has recently shifted its focus to commercialization of its HTS and cold computing products. The Company anticipates that in the next several quarters it will require significant capital to develop an infrastructure for the manufacturing of its commercial products. The Company will need to access either the public or private equity or debt markets or enter into strategic alliances with its customers to obtain the required capital. There can be no assurance that capital will be available, if and when required, on acceptable terms or at all. Any delays in obtaining such capital would have a material adverse effect on the Company's business, results of operations and financial condition.

## PART II. OTHER INFORMATION

### ITEM 5. OTHER INFORMATION

#### JOINT VENTURE

In May 1996, the Company signed a joint venture agreement with Alantac, a precision machining house located in Singapore, to establish Cryo-Asia. Cryo-Asia was established to develop volume manufacturing of STI's proprietary cooler. The joint venture is sixty percent owned by STI and forty percent owned by Alantac.

REPRICING

In November 1995, the Board of Directors approved a Stock Option Repricing Program for all employees. The Repricing Program had been offered on an optional basis to reprice the outstanding options held by the employees to \$4.875, the closing price of the Company's Common Stock as quoted on the Nasdaq National Market on November 9, 1995. Fifty-one employees with a total of 135 grants equal to 797,055 shares were eligible for repricing. No options were repriced as of December 31, 1995. The employees had until January 15, 1996 to exercise the repricing option. Forty-two employees chose to reprice 102 of these grants with a total of 633,268 shares.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the quarter ended September 28, 1996.

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SUPERCONDUCTOR TECHNOLOGIES INC.  
(Registrant)

Dated: November 7, 1996

/s/ James G. Evans, Jr.  
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James G. Evans, Jr.  
Vice President, Chief Financial Officer

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EXHIBIT INDEX

EXHIBIT -----	DESCRIPTION -----
27.1	Financial Data Schedule

<ARTICLE> 5

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