

SUPERCONDUCTOR TECHNOLOGIES INC.

AUDIT COMMITTEE CHARTER

Statement of Policy

The Audit Committee of the Board of Directors shall assist the directors in fulfilling their oversight responsibilities. The Audit Committee will review the financial reporting process, the system of internal controls, the audit process and the Company's process for monitoring compliance with laws and regulations. In performing its duties, the Audit Committee will maintain free and open communication between the directors, the independent auditors and the financial management of the Company. The Audit Committee is intended to provide an independent and, as appropriate, confidential forum in which interested parties can freely discuss information and concerns.

Organization

Independence: The Audit Committee shall be comprised of at least three directors who are independent of the management and the Company. Members of the Audit Committee shall be considered "independent" if they meet the then current standards of the Nasdaq Stock Market, Inc. (NASDAQ), the SEC and Section 10A(m)(3) of the Securities Exchange Act of 1934. An independent director cannot have any relationship which, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In addition, Section 10A(m)(3) prohibits any director serving on the Audit Committee from receiving any consulting, advisory or other compensatory fee from the company or any parent or subsidiary of the company, other than compensation for board or board committee service. Section 10A(m)(3) also prohibits any person affiliated with the company or any parent or subsidiary from serving on the Audit Committee. If future SEC or NASD rules require a more limited definition of "independent," then this charter will be deemed amended when so required to conform with any additional limitations. The Audit Committee's chairperson shall be designated by the full Board or, if it does not do so, the Audit Committee members shall elect a chairperson by vote of a majority of the Audit Committee.

Knowledge and Experience: All Audit Committee members will have the ability to read and understand fundamental financial statements, including a balance sheet, income statement and cash flow statement. Additionally, the Audit Committee shall have at least one member who qualifies as a financial expert under NASD Rule 4350(d)(2)(A)(i). Under that rule, the Audit Committee must have at least one member "who has past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities." The Audit Committee will also endeavor, wherever practicable, to secure as a member a financial expert that also meets the definition of "audit committee financial expert" adopted by the SEC in Rule 401(h) of Regulation S-K.

Meetings: The Audit Committee will meet in an executive session at least quarterly, or more frequently as circumstances dictate. In connection with each meeting, the Committee will provide an opportunity for the independent auditors and management to meet separately with the Audit Committee, without members of the other group present.

Compensation: Audit Committee members may not receive any director or indirect compensation from Superconductor, other than as a director and/or as a member of any committee of the board.

Responsibilities

In carrying out its responsibilities, the Audit Committee believes its policies and procedures should remain flexible in order to be able to best react to changing conditions, and to ensure that the corporate accounting and reporting practices of the Company are in accordance with all requirements and are of the highest quality.

In carrying out these responsibilities, the Audit Committee will:

- Obtain the approval of the full Board of Directors of the Charter, and review and reassess this Charter at least annually or as conditions dictate.
- Hire the independent auditors to be selected to audit the financial statements of the Company and its divisions and subsidiaries.
- Review and approve all related party transactions.
- Approve all fees and engagement terms.
- Have a clear understanding with the independent auditors that the auditors are ultimately accountable to the Audit Committee, as the shareholders' representatives, who have the ultimate authority in deciding to engage, evaluate and, if appropriate, terminate their services.
- Pre-approve all audit and non-audit services performed by Superconductor's auditors, subject to a de-minimis exception for expenditures for non-audit services. The preapproval requirement is waived with respect to the provision of non-audit services if (i) the aggregate amount of all such non-audit services constitutes not more than 5% of the total fees paid by Superconductor to its auditors during the fiscal year, (ii) such services were not recognized by the company at the time of engagement to be non-audit services and (iii) such services are promptly brought to the attention of the Audit Committee and approved prior to completion of the audit by the Audit Committee or by one or more members of the Audit Committee who has been authorized by the Audit Committee to grant such approvals. In reviewing non-audit services, the Audit Committee will consider whether the provision of non-audit services, if any, by the independent auditors is compatible with maintaining the independent auditors independence. The Audit Committee will not approve any of the Prohibited Services listed on Appendix A to the charter, and in making a business judgment about particular non-audit services, the Audit Committee will consider the guidelines contained in Appendix A to the charter. The Audit Committee may delegate to one or more of its members the authority to grant any required preapprovals of audit or non-audit services. The granting of such approval

by the designated member(s) shall be reported to the full Audit Committee at its next regularly scheduled meeting.

- Meet with the independent auditors and financial management of the Company to review the scope of the proposed audit, including the timing of the audit, the procedures to be utilized and the adequacy of the independent auditors' compensation, and at the conclusion of the audit process, review with the independent auditors their findings.
- Review with the independent auditors the adequacy and effectiveness of the accounting and financial controls of the Company. Elicit any recommendations for the improvement of such internal controls or particular areas where new or more detailed controls or procedures are desirable.
- Review communications received by the Company from regulators and other legal and regulatory matters that may have a material effect on the financial statements or on the Company's compliance policies.
- Inquire of management and the independent auditors about significant areas of risk or exposure and assess the steps management has taken to minimize such risks.
- Review the financial statements contained in the annual report to shareholders and other SEC filings with management and the independent auditors to determine that the independent auditors are satisfied with the disclosure and content of the financial statements to be presented to the shareholders. Review with financial management and the independent auditors the results of their analysis of significant financial reporting issues and practices, including changes in or adoptions of accounting principles and disclosure practices, review significant period-end adjustments and discuss any other matters required to be communicated to the Committee by the auditors. Also review with financial management and the independent auditors their judgment about the quality, not just acceptability, of accounting principles and the clarity of the financial disclosure practices used or proposed to be used and particularly, the degree of aggressiveness or conservatism of the Company's accounting principles and underlying estimates and other significant decisions made in preparing the financial statements.
- Meet with the independent auditors without members of management present. Among the items to be discussed in these meeting are the independent auditors' evaluation of the Company's financial, accounting and auditing personnel and the cooperation that the independent auditors received during the course of the audit.
- Review with financial management any quarterly, annual or other press releases containing historical or forward-looking financial information before the press release is issued to the general public or filed with the SEC. In the case of forward-looking financial information, the Audit Committee may consult with the full board as and when deemed appropriate by the Audit Committee.
- Report the results of the annual audit to the Board of Directors and, if requested by the Board, invite the independent auditors to attend the full Board of Directors' meeting to assist in reporting the results of the annual audit or to answer the directors' questions.

- On an annual basis, obtain from the independent auditors a written communication delineating all their relationships and professional services, as required by Independence Standards Board Standard No. 1, *Independence Discussion with Audit Committees*. In addition, review with the independent auditors the nature and scope of any disclosed relationships or professional services and take, appropriate action to ensure the continuing independence of the auditors.
- Submit the minutes of all meeting of the Audit Committee to, or discuss the matters discussed at each committee meeting with, the Board of Directors.
- Investigate any matter brought to its attention within the scope of its duties with the power to retain outside counsel, accountants, or others for this purpose if, in its judgment, that is appropriate.
- Confirm in writing to the NASD annually or with respect to any changes on the Audit Committee regarding independence, financial capabilities and the annual review and reassessment of the Audit Committee Charter.
- Disclose on the Company's Proxy Statement the Audit Committee Charter. The Charter will be including in the Proxy Statement every three years or when significant amendments are made to it.

Procedures for Responding to Concerns

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

Any member of the Audit Committee who receives such a complaint or inquiry shall notify the Chair of the Audit Committee, who shall then notify the other members of the Audit Committee. The Audit Committee will then promptly decide on an appropriate methodology to investigate, understand and resolve the potential issue in a timely fashion. To do so, the Audit Committee has the power to retain outside counsel, accountants and other professionals to assist in responding to and investigating any issue. After review and discussion in an executive session and (as the Audit Committee deems necessary) with the full Board of Directors and with outside counsel or other outside advisors, the Audit Committee shall seek to promptly address the concerns and respond privately or publicly, as appropriate, to address the matter. The decision of the Audit Committee in any such matter will be final and binding on the Company without further action of the Board of Directors.

Approved by the Board of Directors and the Audit Committee as of May 25, 2004.

Dennis J. Horowitz
Chairman, Audit Committee

John D. Lockton
Chairman of the Board of Directors

APPENDIX A

To help maintain internal audit controls, the following non-audit services shall not be performed by Superconductor's independent auditors ("**Prohibited Services**"):

- Bookkeeping or other services related to the Company's accounting records;
- Financial information systems design and implementation;
- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- Actuarial services;
- Internal audit outsourcing services;
- Management functions or human resources;
- Broker, dealer, investment adviser, or investment banking services;
- Legal services and expert services unrelated to the audit; and
- Any other service the SEC or the NASDAQ determines, by regulations is not permitted.

Some factors which may be considered by the Audit Committee when deciding whether to approve audit and non-audit services, which are not Prohibited Services, include:

1. Whether the service facilitates the performance of the audit, improves the Company's financial reporting process, or is otherwise in the interest of the Company and its shareholders.
2. Whether the service is being performed principally for the Audit Committee.
3. The effects of the service, if any, on audit effectiveness or on the quality and timeliness of the Company's financial reporting process.
4. Whether the service would be performed by specialists who ordinarily also provide recurring audit support.
5. Whether the service would be performed by audit personnel and, if so, whether it will enhance their knowledge of the Company's business and operations.
6. Whether the role of those performing the service would be inconsistent with the auditor's role.
7. Whether the audit firm's personnel would be assuming a management role or creating a mutuality of interest with management.
8. Whether the auditors, in effect, would be auditing their own numbers.
9. Whether the project must be started and completed very quickly.
10. The size of the fee(s) for the non-audit service(s).