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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 28, 2019

☐ **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.)**

9101 Wall Street, Suite 1300, Austin, Texas 78754
(Address of principal executive offices & zip code)

(512) 334-8900
(Registrant's telephone number including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001	**SCON**	**The NASDAQ Stock Market LLC**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

We had 17,731,893 shares of our common stock outstanding as of the close of business on November 8, 2019.

SUPERCONDUCTOR TECHNOLOGIES INC.

INDEX TO FORM 10-Q

Three and Nine Months Ended September 28, 2019

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 our beliefs and 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:

- *our limited cash and a history of losses;*
- *our need to materially grow our revenues from commercial operations and/or to raise additional capital (which financing may not be available on acceptable terms or at all) to continue to implement our current business plan and maintain our viability or to complete an alternative strategic transaction, with our existing cash reserves only expected to be sufficient into the first quarter of 2020;*
- *the performance and use of our equipment to produce wire in accordance with our timetable;*
- *overcoming technical challenges in attaining milestones to develop and manufacture commercial lengths of our high temperature superconducting (HTS) wire;*
- *the possibility of delays in customer evaluation and acceptance of our HTS wire;*
- *the limited number of potential customers and customer pressures on the selling prices of our products;*
- *the limited number of suppliers for some of our components and our HTS wire;*
- *there being no significant backlog from quarter to quarter;*
- *our market being characterized by rapidly advancing technology;*
- *the impact of competitive products, technologies and pricing;*
- *manufacturing capacity constraints and difficulties;*
- *the impact of any financing activity on the level of our stock price;*
- *the dilutive impact of any issuances of securities to raise capital;*
- *cost and uncertainty from compliance with environmental regulations;*
- *local, regional, and national and international economic conditions and events, and the impact they may have on us and our customers; and*
- *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.*

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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

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.

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

SUPERCONDUCTOR TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Government contract revenues	$ 157,000	$ 517,000	$ 157,000	$ 1,556,000
Total revenues	157,000	517,000	157,000	1,556,000
Costs and expenses:				
Cost of commercial product revenues	943,000	604,000	2,688,000	1,611,000
Cost of government contract revenues	10,000	395,000	27,000	1,129,000
Research and development	622,000	665,000	1,875,000	1,655,000
Selling, general and administrative	966,000	1,041,000	2,922,000	3,088,000
Total costs and expenses	2,541,000	2,705,000	7,512,000	7,483,000
Loss from operations	(2,384,000)	(2,188,000)	(7,355,000)	(5,927,000)
Other income and expense:				
Adjustments to fair value of warrant derivatives	—	3,000	—	52,000
Adjustment to warrant exercise price	—	—	—	(24,000)
Other income	9,000	16,000	54,000	30,000
Net loss	$(2,375,000)	$(2,169,000)	$(7,301,000)	$(5,869,000)
Basic and diluted net loss per common share	$ (0.43)	$ (0.88)	$ (1.64)	$ (3.66)
Basic and diluted weighted average number of common shares outstanding	5,501,576	2,469,371	4,455,258	1,601,752

See accompanying notes to the unaudited condensed consolidated financial statements.

SUPERCONDUCTOR TECHNOLOGIES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 28, 2019 (Unaudited)	December 31, 2018 (See Note)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 275,000	$ 5,616,000
Accounts receivable net	157,000	
Inventory	147,000	173,000
Prepaid expenses and other current assets	147,000	61,000
Total Current Assets	726,000	5,850,000
Property and equipment, net of accumulated depreciation of $12,843,000 and $12,172,000, respectively	338,000	1,009,000
Patents, licenses and purchased technology, net of accumulated amortization of $1,060,000 and $1,026,000, respectively	652,000	686,000
Operating lease assets	297,000	—
Other assets	69,000	69,000
Total Assets	$ 2,082,000	$ 7,614,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 349,000	$ 313,000
Accrued expenses	493,000	539,000
Current operating lease liabilities	291,000	—
Total Current Liabilities	1,133,000	852,000
Long term operating lease liabilities	6,000	—
Other long term liabilities	8,000	17,000
Total Liabilities	1,147,000	869,000
Commitments and Contingencies (Notes 5 and 6)		
Stockholders' Equity:		
Preferred stock, $.001 par value, 2,000,000 shares authorized, 328,925 and 330,787 shares issued and outstanding, respectively	—	—
Common stock, $.001 par value, 250,000,000 shares authorized, 5,502,609 and 3,270,609 shares issued and outstanding, respectively	6,000	3,000
Capital in excess of par value	327,974,000	326,486,000
Accumulated deficit	(327,045,000)	(319,744,000)
Total Stockholders' Equity	935,000	6,745,000
Total Liabilities and Stockholders' Equity	$ 2,082,000	$ 7,614,000

See accompanying notes to the unaudited condensed consolidated financial statements.

Note – December 31, 2018 balances were derived from audited financial statements.

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SUPERCONDUCTOR TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	September 28, 2019	September 29, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(7,301,000)	$(5,869,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	704,000	781,000
Stock-based compensation expense	70,000	44,000
Adjustments to fair value of warrant derivatives	—	(52,000)
Adjustment to warrant exercise price	—	24,000
Changes in assets and liabilities:		
Accounts receivable	(157,000)	43,000
Inventories	26,000	(47,000)
Prepaid expenses and other current assets	(86,000)	(44,000)
Patents and licenses	—	(1,000)
Accounts payable, accrued expenses and other current liabilities	(18,000)	160,000
Net cash used in operating activities	(6,762,000)	(4,961,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	—	(189,000)
Net cash used in investing activities	—	(189,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from the sale of common stock	1,421,000	9,680,000
Net cash provided by financing activities	1,421,000	9,680,000
Net increase (decrease) in cash and cash equivalents	(5,341,000)	4,530,000
Cash and cash equivalents at beginning of period	5,616,000	3,056,000
Cash and cash equivalents at end of period	$ 275,000	$ 7,586,000

See accompanying notes to the unaudited condensed consolidated financial statements.

SUPERCONDUCTOR TECHNOLOGIES INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General

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. We are now leveraging our key enabling technologies in HTS materials and cryogenics, to pursue emerging opportunities in the electrical grid and in equipment platforms that utilize electrical circuits.

Our initial superconducting products were completed in 1998, and we began delivery to a number of wireless network providers. In the following 14 years, our cost reducing efforts led to the invention of our proprietary, high-yield and high throughput HTS material deposition manufacturing process.

Since 2010, we have focused our research and development efforts on adapting our successful HTS materials deposition techniques to the production of our HTS Conductus® wire for next generation power applications, including Next Generation Electrical Machines (NGEM). While most of our historical commercial product revenues came from the sale of high performance wireless communications infrastructure products, production of our Conductus wire is our principal opportunity to grow our future revenue.

Historically, we used research and development contracts as a source of funds for our commercial technology development. In November 2016, we were selected as the prime recipient of a $4.5 million program award provided by the U.S. Department of Energy (DOE) and, in June 2017, the related contract was finalized. Government contract revenues of $157,000 recognized at September 28, 2019 were from phase one contract research and development. We have completed phase one of this contract and phase two is now approved with a start date of December 1, 2019.

In early 2018, we announced the concentration of our future Conductus wire product development efforts on NGEM to capitalize on several accelerating energy megatrends. This refined focus is very synergistic with our program with the DOE award for the development of superconducting wire to enable NGEM.

The unaudited condensed consolidated financial information furnished herein has been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and reflects all adjustments, consisting only of normal recurring adjustments, which in the opinion of management, are necessary for a fair statement of the results of operations for the periods presented.

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and the accompanying notes. Actual results could differ from those estimates and such differences may be material to the condensed consolidated financial statements. This quarterly report on Form 10-Q should be read in conjunction with our Form 10-K for 2018. The results of operations for the nine months ended September 28, 2019 are not necessarily indicative of the results for all of 2019.

2. Summary of Significant Accounting Policies

Basis of Presentation

We have incurred significant net losses since our inception and have an accumulated deficit of $327 million. In 2018, we incurred a net loss of $8.1 million and had negative cash flows from operations of $6.9 million. In the nine months ended September 28, 2019, we incurred a net loss of $7.3 million and had negative cash flows from operations of $6.8 million. At September 28, 2019, we had $0.3 million in cash and cash equivalents compared to $5.6 million in cash and cash equivalents as of December 31, 2018. Subsequent to September 28, 2019, on October 10, 2019 we completed a public offering of an aggregate of 11,834,000 shares of our common stock (or common stock equivalents) and warrants to purchase an aggregate of 11,834,000 shares of common stock with gross proceeds to us of approximately $3.0 million. The warrants are exercisable for five years at an exercise price equal to the public offering price. The offering was priced at $0.25 per share of common stock. The net proceeds to us from the offering, after deducting the placement agent fees and our estimated offering expenses, was approximately $2.4 million. The October 10, 2019 offering did not raise sufficient proceeds for us to execute on our planned business operations over the next 12-months. Our current forecast is that our existing cash and cash equivalents resources will be sufficient to fund our planned operations only into the first quarter of 2020. Therefore, unless we can materially grow our revenues from commercial operations during such period, we will need to raise additional capital during this fiscal year ending December 31, 2019 to continue to implement our current business plan and maintain our viability. 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. These factors raise substantial doubt about our ability to continue as a going concern.

Our plans regarding improving our future liquidity will require us to successfully use our expertise and our technology to generate revenues in various ways, including commercial operations, joint ventures and licenses. We have invested and will continue to invest in our Austin, Texas manufacturing facility to enable us to produce our Conductus wire products. However, delays in the timing of our ability to, including but not limited to, raise additional capital, unexpected production delays, and our ability to sell our Conductus wire products in large scale could substantially impact our estimates used in the determination of expected future cash flows and/or expected future profitability.

On October 29, 2019, we announced that we had commenced a process to explore strategic alternatives focused on maximizing shareholder value. Strategic alternatives to consider may include, among others, a strategic investment financing which would allow the company to pursue its current business plan to continue to commercialize the Conductus wire platform, a business combination such as a merger with another party, or a sale of the company. We have not set a timetable for the conclusion of this review, nor have we made any decisions related to any potential strategic alternatives at this time and there can be no assurance that the strategic exploration review will result in a transaction or other strategic change or outcome.

The accompanying condensed consolidated financial statements do not include any adjustments that may result from the outcome of the uncertainties set forth above.

On July 24, 2018, we effected a 1-for-10 reverse stock split of our common stock, or the Reverse Stock Split. As a result of the Reverse Stock Split, every ten shares of our pre-Reverse Stock Split common stock were combined and reclassified into one share of our common stock. The Reverse Stock Split did not change the authorized number of shares or the par value of our common stock. Share and per share data included herein has been retroactively restated for the effect of the Reverse Stock Split as applicable. In addition, we identified certain critical accounting policies which affect certain of our more significant estimates and assumptions used in preparing our condensed consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. We have not made any material changes to these policies.

On January 1, 2019, we adopted Accounting Standards Codification (ASC) 842,*Leases*. ASC 842 was issued to increase transparency and comparability among entities by recognizing right-of-use assets and lease liabilities on the balance sheet and disclosing key information about lease arrangements. There was not a material cumulative-effect adjustment to our beginning retained earnings as a result of adopting ASC 842. Our adoption of ASC 842 did not materially impact our statements of operations or statements of cash flows. Our condensed consolidated financial statements for the periods prior to the adoption of ASC 842 are not adjusted. We have recognized additional operating lease assets and obligations of $741,000 and 297,000 as of January 1, 2019 and September 28, 2019, respectively.

Principles of Consolidation

The interim condensed consolidated financial statements include the accounts of Superconductor Technologies Inc. and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated from the condensed 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 we believe to be quality financial institutions may and exceed FDIC limits. Historically, we have not experienced any losses due to such concentration of credit risk.

Accounts Receivable

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 collectability. Accounts 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

To determine revenue recognition we perform the following five steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue as we satisfy our performance obligation.

Government contract revenues are principally generated under research and development contracts. Revenues from research-related activities are derived from contracts with agencies of the U.S. Government. Credit risk related to accounts receivable arising from such contracts is considered minimal. 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 our current project in process, we believe that adjustments from open audits will not have an effect on our financial position, results of operations or cash flows. We are using the expected cost-plus-margin approach as the suitable method for allocating transaction price to the performance obligations in the contract under ASC 606.

Leases

At contract inception, we determine if an arrangement is a lease. Operating leases are included in “Operating lease assets”, “Current operating lease liabilities” and “Long term operating lease liabilities” on the condensed consolidated balance sheets. We have no finance leases. Leases with an initial term of 12 months or less are not recorded on the condensed consolidated balance sheets. Operating lease expense is recognized on a straight-line basis over the lease term. We have lease agreements with lease and non-lease components and have elected to account for the lease andnon-lease components as separate components.

Operating lease assets and liabilities were recognized at January 1, 2019, based on the present value of the future minimum lease payments over the lease term. One of our leases contains rent escalation clauses that are factored into our determination of lease payments. Our leases do not provide an implicit rate; we used its incremental borrowing rate based on the information available at the lease commencement date to discount payments to the present value. One of our operating leases contains a renewal option. The exercise of this option is at our discretion. Lease terms include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

Shipping and Handling Fees and Costs

Shipping and handling fees billed to customers are included in net revenues. Shipping and handling fees associated with freight are generally included in cost of 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 product returned to us during such warranty period at no cost to the customer. An estimate by us for warranty related costs is recorded by us 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 expense as incurred and include salary, facility, depreciation and material expenses. Research and development costs are charged to research and development expense.

Inventories

Inventories were stated at the lower of cost or net realizable value, 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 September 28, 2019 net inventory value was $147,000, compared to a December 31, 2018 value of $173,000. 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 charged to expense immediately.

Property and Equipment

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

Patents, Licenses and Purchased Technology

Patents and licenses are recorded at cost and are amortized using the straight-line method over the shorter of their estimated useful lives or seventeen years.

Other Assets and Investments

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 be used in operations and 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, as well as alternative uses, such as government contracts or awards. The analyses necessarily involve significant management judgment. Market acceptance and significant revenues from our new Conductus wire is a key assumption in realization of our investment in long-lived assets. 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 at September 28, 2019 and did not believe there was any impairment.

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. Legal fees are recorded as services are provided. The costs of our defense in such matters are charged to operations 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 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 condensed consolidated financial statements, are recorded in the statement 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 positions were recorded in the current year. No interest or penalties on uncertain tax positions have been expensed to date. We are not under examination by any taxing authorities. Our state and federal statute of limitations for examination of us is open for 2013 and 2014, respectively, and subsequent filings.

Due to our operating losses, the 2017 Tax Act has not impacted our operating results or income tax expense. The primary impact of the 2017 Tax Act was the re-measurement of our deferred tax assets, based upon the new U.S. statutory corporate tax rate of 21% and the required change to the related valuation allowance. The effective rate adjustment to deferred tax assets, a discrete item for the quarter, is fully offset by a decrease in the valuation allowance. As such, there is no net effective rate impact in our financial statements. No income tax provision was required for the deemed repatriation tax or the global intangible low tax income (GILTI) tax, as our foreign subsidiaries had no cumulative positive earnings and profits.

As of December 31, 2018, we had net operating loss carryforwards for federal and state income tax purposes. We concluded that under the Internal Revenue Code change of control limitations, a maximum of $20.7 million of our $345.9 net operating loss carryforwards, which expire in the years 2019 through 2037, would be available for reduction of taxable income and reduced both the deferred tax asset and valuation allowance accordingly. Due to the uncertainty surrounding their realization, we recorded a full valuation allowance against our net deferred tax assets. Accordingly, no deferred tax asset has been recorded in the accompanying condensed consolidated balance sheets.

Marketing Costs

All costs related to marketing and advertising our products are charged to expense as incurred or at the time the advertising takes place. Advertising costs were not material in each of the nine months ended September 28, 2019 and September 29, 2018.

Net Loss Per Share

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

Stock-based Compensation Expense

We grant both restricted stock awards and stock options to our key employees, directors and consultants. For the three and nine months ended September 28, 2019 and September 29, 2018, no options or awards were granted. The following table presents details of total stock-based compensation expense that is included in each functional line item on our condensed consolidated statements of operations:

	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Cost of revenue	$ 1,000	$ —	$ 3,000	$ 1,000
Research and development	2,000	1,000	7,000	4,000
Selling, general and administrative	20,000	13,000	60,000	39,000
Total stock-based compensation expense	$ 23,000	$ 14,000	$ 70,000	$ 44,000

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP 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 financial statements and the reported amounts of revenues and expenses during the reporting periods. The significant estimates in the preparation of the financial statements relate to the assessment of the carrying amount of accounts receivable, fixed assets, intangibles, estimated provisions for warranty costs, fair value of warrant derivatives, income taxes and disclosures related to litigation. Actual results could differ from those estimates and such differences may be material to the condensed 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, and other current liabilities as of September 28, 2019 approximate fair value.

The fair value of our warrant derivative liability, which expired in August 2018, was estimated using the Binomial Lattice option valuation model.

Fair value for financial reporting purposes is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date, ASC 820, “Fair Value Measurement and Disclosures”, also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1 — quoted prices in active markets for identical assets or liabilities

Level 2 — quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3 — inputs that are unobservable (for example cash flow modeling inputs based on assumptions)

The fair value of our warrant liabilities was determined based on level 3 inputs. These derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives. See Note 3 — Stockholders’ Equity: *Warrants*.

Comprehensive Income

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

Segment Information

We have historically operated in a single business segment: the research, development, manufacture and marketing of high performance products used in cellular base stations. We derived net commercial product revenues primarily from the sales of our AmpLink and SuperPlex products which we sold directly to wireless network operators in the United States. Net revenues derived principally from government contracts are presented separately on the consolidated statements of operations for all periods presented. As discussed in this Report, we are adapting our unique HTS material deposition techniques to produce our energy efficient, cost-effective and high performance Conductus wire.

Certain Risks and Uncertainties

Our long-term prospects are dependent upon the successful commercialization and market acceptance of our Conductus wire products. We do not currently have a customer buying significant amounts of our wire products. With respect to our Conductus wire business, we expect to also have some customer concentration in that business as we continue to commercialize our wire product. The loss of or reduction in sales, or the inability to collect outstanding accounts receivable, from any significant customer 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 effects 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 indemnity obligations because of the uncertainty as to whether a claim might arise and how much it might total.

3. Stockholders’ Equity

The following is a summary of stockholders’ equity transactions for the three and nine months ended September 28, 2019 and September 29, 2018:

	Convertible Preferred Stock		Common Stock		Capital in Excess of Par Value	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance at June 29, 2019	328,925	$ —	5,502,609	$ 6,000	$327,951,000	$(324,670,000)	$ 3,287,000
Conversion of Series E preferred stock to common stock							—
Issuance of common stock (net of costs)							
Stock-based compensation					23,000		23,000
Net loss						(2,375,000)	(2,375,000)
Balance at September 28, 2019	328,925	$ —	5,502,609	$ 6,000	$327,974,000	$(327,045,000)	$ 935,000

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	Convertible Preferred Stock		Common Stock		Capital in Excess of Par Value	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance at December 31, 2018	330,787	$ —	3,270,609	$ 3,000	$326,486,000	$(319,744,000)	$ 6,745,000
Conversion of Series E preferred stock to common stock	(1,862)	—	532,000	1,000	(1,000)		
Issuance of common stock (net of costs)			1,700,000	2,000	1,419,000		1,421,000
Stock-based compensation					70,000		70,000
Net loss						(7,301,000)	(7,301,000)
Balance at September 28, 2019	328,925	$ —	5,502,609	$ 6,000	$327,974,000	$(327,045,000)	$ 935,000

	Convertible Preferred Stock		Common Stock		Capital in Excess of Par Value	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance at June 29, 2018	328,925	$ —	1,232,379	$ 1,000	$318,454,000	$(315,313,000)	$ 3,142,000
Issuance of Series E preferred	4,135						
Conversion of Series E preferred stock to common stock	(1,573)		449,429				
Issuance of common stock(net of costs)	—	—	1,390,000	2,000	7,978,000		7,980,000
Stock-based compensation					14,000		14,000
Warrant exercises							—
Cancellation of common shares from reverse stock split			(1,199)				
Net loss						(2,169,000)	(2,169,000)
Balance at September 29, 2018	331,487	$ —	3,070,609	$ 3,000	$326,446,000	$(317,482,000)	$ 8,967,000

	Convertible Preferred Stock		Common Stock		Capital in Excess of Par Value	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance at December 31, 2017	328,925	$ —	1,074,659	$ 1,000	$316,724,000	$(311,613,000)	$ 5,112,000
Issuance of Series E preferred	4,135						
Conversion of Series E preferred stock to common stock	(1,573)		449,429				
Issuance of common stock(net of costs)		—	1,509,000	2,000	9,678,000		9,680,000
Stock-based compensation					44,000		44,000
Warrant exercises			38,720				—
Cancellation of common shares from reverse stock split			(1,199)				
Net loss						(5,869,000)	(5,869,000)
Balance at September 29, 2018	331,487	$ —	3,070,609	$ 3,000	$326,446,000	$(317,482,000)	$ 8,967,000

Stock Options

At September 28, 2019, we had two active equity award option plans, the 2003 Equity Incentive Plan and the 2013 Equity Incentive Plan (collectively, the “Stock Option Plan”), although we can only grant new options under the 2013 Equity Incentive Plan. Under our Stock Option Plan, stock awards were made to our directors, key employees, consultants, and non-employee directors and consisted of stock options, restricted stock awards, performance awards, and performance share awards. Stock options were granted at prices no less than the market value on the date of grant. There were no stock option exercises during the three and nine months ended September 28, 2019 or during the three and nine months ended September 29, 2018.

The impact to the condensed consolidated statements of operations for the three and nine months ended September 28, 2019 on net loss was $20,000 and $62,000 and $0.00 and $0.01 on basic and diluted net loss per common share, respectively, compared to $7,000 and $24,000 and $0.00 and $0.01 on basic and diluted net loss per common share for the three and nine months ended September 29, 2018. No stock compensation cost was capitalized during either period. The total compensation cost related to nonvested awards not yet recognized was $101,000 and the weighted-average period over which the cost is expected to be recognized was 9 months at September 28, 2019.

The following is a summary of stock option transactions under our Stock Option Plans at September 28, 2019:

	Number of Shares	Price Per Share	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
Balance at December 31, 2018	140,323	$ 1.92 - $ 5,148	$ 25.29	12,323	$ 268
Granted	—				
Exercised	—				
Canceled	2,500	1.92	1.92	—	—
Balance at September 28, 2019	137,823	$1.92 - $ 5,148	$ 25.71	12,323	$ 268

The outstanding options expire on various dates through the end of October 2028. The weighted-average contractual term of options outstanding is 8.7 years and the weighted-average contractual term of stock options currently exercisable is 4.7 years. The exercise prices for these options range from $1.92 to $5,148 per share, for an aggregate exercise price of $3.5 million. At September 28, 2019, no options had an exercise price less than the current market value.

Restricted Stock Awards

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 three years. The following is a summary of our restricted stock award transactions at September 28, 2019:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance nonvested at December 31, 2018	2,000	$ 10.68
Granted	—	—
Vested	(667)	11.05
Forfeited	(1,000)	10.50
Balance nonvested at September 28, 2019	333	$ 10.50

The impact to the condensed consolidated statements of operations for the three and nine months ended September 28, 2019 was $3,000 and $8,000 and $0.00 and $0.00, respectively, on basic and diluted net loss per common share for the three and nine months ended September 29, 2018, respectively, and $7,000 and $20,000 and $0.00 and $0.02 on basic and diluted net loss per common share for the three and nine months ended September 29, 2018, respectively. No stock compensation cost was capitalized during the period. The total compensation cost related to nonvested awards not yet recognized was $4,000 and the weighted-average period over which the cost is expected to be recognized was 7 months.

Warrants

The following is a summary of outstanding warrants at September 28, 2019:

		Common Shares			
		Total	Currently Exercisable	Price per Share	Expiration Date
(1)	Warrants related to February 2015 agreement	306	306	$ 450.45	February 13, 2020
(2)	Warrants related to March 2015 financing	10,209	10,209	$ 244.88	September 24, 2020

(3)	Warrants related to March 2015 financing	1,021	1,021	$306.09	March 20, 2020
(4)	Warrants related to October 2015 financing	135,517	135,517	$ 60.00	October 14, 2020
(5)	Warrants related to October 2015 financing	9,034	9,034	$ 65.63	October 14, 2020
(6)	Warrants related to August 2016 financing	53,506	53,506	$ 30.00	February 2, 2022
(7)	Warrants related to August 2016 financing	4,994	4,994	$ 38.55	August 2, 2021
(8)	Warrants related to December 2016 financing	685,667	685,667	$ 20.00	December 14, 2021
(9)	Warrants related to March 2018 financing	158,100	158,100	$ 11.40	September 9, 2023
(10)	Warrants related to March 2018 financing	11,067	11,067	$ 15.80	March 6, 2023
(11)	Warrants related to July 2018 financing	2,571,429	2,571,429	$ 3.50	July 25, 2023
(12)	Warrants related to July 2018 financing	154,286	154,286	$ 4.38	July 25, 2023
(13)	Warrants related to May 2019 financing	119,000	—	$ 1.25	May 23, 2024

Subsequent to September 28, 2019, On October 10, 2019 we completed a public offering of an aggregate of 11,834,000 shares of our common stock (or common stock equivalents) and warrants to purchase an aggregate of 11,834,000 shares of common stock with gross proceeds to us of approximately $3.0 million. The warrants are exercisable for five years at an exercise price equal to the public offering price. The offering was priced at $0.25 per share of common stock. The net proceeds to us from the offering, after deducting the placement agent fees and our estimated offering expenses, was approximately $2.4 million. The placement agent received warrants to purchase 828,380 shares of common stock, at an exercise price of $0.3125, that will expire October 8, 2024 and are subject to a six month lock-up.

On May 23, 2019 we completed a public offering of an aggregate of 1,700,000 shares of our common stock with gross proceeds to us of $1.7 million. The offering was priced at $1.00 per share of common stock. The net proceeds to us from the offering, after deducting the placement agent fees and our estimated offering expenses, was approximately $1.4 million. The placement agent received warrants to purchase 119,000 shares of common stock, at an exercise price of $1.25, that are subject to a nine month lock-up and will expire May 23, 2024.

On July 30, 2018 we completed a public offering of an aggregate of 2,571,429 shares of our common stock (or common stock equivalents initially in the form of Series E Preferred Stock) and warrants to purchase an aggregate of 2,571,429 shares of common stock with gross proceeds to us of $9.0 million. The net proceeds to us from the offering, after deducting the placement agent fees and our estimated offering expenses, was $7.98 million. The offering was priced at $3.50 per share of common stock (or common stock equivalent), with each share of common stock (or common stock equivalent) sold with one five-year warrant to purchase one share of common stock, at an exercise price of $3.50 per share. The placement agent also received warrants to purchase 154,286 shares of common stock, at an exercise price of $4.375, that were subject to a nine month lock-up and will expire July 25, 2023.

On March 7, 2018, we announced the pricing of a registered offering of common stock (and common stock equivalents) with total gross proceeds of approximately $2 million. The closing of the registered public offering was completed on March 9, 2018. The net proceeds to us from the registered offering, after deducting the placement agent fees and our estimated offering expenses, was $1.7 million. In a concurrent private placement, we issued to the investor in the registered offering, an unregistered warrant (the “Warrants”) to purchase one share of common stock for each share of common stock or Pre-funded Warrants purchased in the registered offering. The Warrants have an exercise price of $11.40 per share, shall be exercisable immediately and will expire five years and nine months from the date of issuance.

Our warrants are exercisable by paying cash or, solely in the absence of an effective registration statement or prospectus, by cashless exercise for unregistered shares of common stock. The exercise price of the warrants is subject to standard antidilutive provision 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. We have determined that these warrants related to issuance of common stock are subject to equity treatment because the warrant holder has no right to demand cash settlement and there are no unusual anti-dilution rights.

Certain warrants that expired on August 9, 2018 were not considered indexed to our common shares under ASC815-40, and required separate accounting as derivative instruments with changes in fair value recognized in earnings each period. The warrants contained a provision whereby the warrant exercise price would be decreased in the event that future common stock issuances were made at a price less than the then exercise price. Due to the potential variability of their exercise price, these warrants do not qualify for equity treatment, and therefore were recognized as a liability. The warrant liability was adjusted to fair value each reporting period, and any change in value was recognized in the statement of operations. Due to their expiration these warrants had no value at December 31, 2018 or September 28, 2019.

4. Loss Per Share

Basic and diluted net loss per share is based on the weighted-average number of common shares outstanding.

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

	September 28, 2019	September 29, 2018
Outstanding stock options	137,823	12,323
Unvested restricted stock awards	333	2,000
Outstanding warrants	3,914,136	3,796,849
Total	4,052,292	3,811,172

Also, the preferred stock convertible into 1,827 shares of common stock was not included since its impact would be anti-dilutive.

5. Commitments and Contingencies

Operating Leases

We lease our offices and production facility under a non-cancelable operating lease in Austin, Texas that expires in April 2020. The lease contains minimum rent escalation clauses that require additional rental amounts after the first year. This lease contains one five-year renewal option. We lease certain other, less significant, vehicles and equipment. Our operating lease expense is recognized on a straight line basis over the lease terms.

For the three and nine months ended September 28, 2019, operating lease expense was $170,000 and $467,000, respectively.

The undiscounted minimum lease payments under operating leases at September 28, 2019 are as follows:

Years ending December 31,	Operating Leases
Remainder of 2019	$ 147,000
2020	149,000
2021	3,000
2022	2,000
2023	—
Thereafter	—
Total lease payments	301,000
Less imputed interest	(4,000)
Present value of lease liabilities	$ 297,000

At September 28, 2019, the weighted average remaining lease term and the weighted average discount rate for operating leases was 6 months and 3%, 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. Our minimum license obligations are $10,000 per year through 2025. In the event that we fail to pay minimum annual royalties, these licenses may automatically become non-exclusive or be terminated. These royalty obligations terminate at various times from 2018 to 2025. Royalty expense totaled zero and $10,000 and $17,000 and $43,000, respectively, for the three and nine months ended September 28, 2019 and September 29, 2018. 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 future audit adjustments to be significant.

6. 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 condensed 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 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 indemnities.

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 indemnities 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.

7. Details of Certain Financial Statement Components and Supplemental Disclosures of Cash Flow Information andNon-Cash Activities

Balance Sheet Data:

	September 28, 2019	December 31, 2018
Accounts receivable:		
Accounts receivable-commercial products	$ 160,000	$ 3,000
Less: allowance for doubtful accounts	(3,000)	(3,000)
	$ 157,000	$ —

	September 28, 2019	December 31, 2018
Inventories:		
Raw materials	$ 112,000	$ 161,000
Work In Process	35,000	12,000
	$ 147,000	$ 173,000

	September 28, 2019	December 31, 2018
Property and Equipment:		
Equipment	$ 11,911,000	$ 11,911,000
Leasehold improvements	1,065,000	1,065,000
Furniture and fixtures	205,000	205,000
	13,181,000	13,181,000
Less: accumulated depreciation and amortization	(12,843,000)	(12,172,000)
	$ 338,000	$ 1,009,000

Depreciation expense amounted to $224,000 and $671,000 for the three and nine month periods ended September 28, 2019 and $219,000 and $749,000, respectively, for the three and nine months ended September 29, 2018.

	September 28, 2019	December 31, 2018
Patents and Licenses:		
Patents pending	$ —	$ —
Patents issued	1,712,000	1,712,000
Less accumulated amortization	(1,060,000)	(1,026,000)
Net patents issued	652,000	686,000
	$ 652,000	$ 686,000

Amortization expense related to these items totaled $11,000 and $33,000, respectively, for the three and nine months ended September 28, 2019 and $11,000 and $32,000, respectively, for the three and nine months ended September 29, 2018. Amortization expenses are expected to total $11,000 for the remainder of 2019 and $40,000 for 2020 and 2021.

	September 28, 2019	December 31, 2018
Accrued Expenses and Other Long Term Liabilities:		
Salaries payable	$ 60,000	$ 119,000
Compensated absences	212,000	195,000
Compensation related	46,000	6,000
Warranty reserve	8,000	8,000
Operating lease	297,000	39,000
Other	175,000	189,000
	798,000	556,000
Less current portion	(784,000)	(539,000)
Long term portion	$ 14,000	$ 17,000

	For the nine months ended,	
	September 28, 2019	September 29, 2018
Warranty Reserve Activity:		
Beginning balance	$ 8,000	$ 8,000
Additions	—	—
Deductions	—	—
Ending balance	$ 8,000	$ 8,000

8. Subsequent Events

On October 29, 2019, we announced that we had commenced a process to explore strategic alternatives focused on maximizing shareholder value. Strategic alternatives to consider may include, among others, a strategic investment financing which would allow the company to pursue its current business plan to continue to commercialize the Conductus wire platform, a business combination such as a merger with another party, or a sale of the company. We have not set a timetable for the conclusion of this review, nor have we made any decisions related to any potential strategic alternatives at this time and there can be no assurance that the strategic exploration review will result in a transaction or other strategic change or outcome.

On October 10, 2019 we completed a public offering of an aggregate of 11,834,000 shares of our common stock (or common stock equivalents) and warrants to purchase an aggregate of 11,834,000 shares of common stock with gross proceeds to us of approximately $3.0 million. The warrants are exercisable for five years at an exercise price equal to the public offering price. The offering was priced at $0.25 per share of common stock. The net proceeds to us from the offering, after deducting the placement agent fees and our estimated offering expenses, was approximately $2.4 million.

We have scheduled a special meeting of shareholders on November 14, 2019 to consider a proposal to approve amendment of our Restated Certificate of Incorporation, as amended, to effect a reverse stock split of our common stock at a ratio determined by our board of directors within a specified range, with a reduction in the number of authorized shares of our common stock by a corresponding ratio. If approved, such amendment would be implemented (or not implemented) at the sole discretion of our board of directors.

As previously disclosed, on July 9, 2019, we received a letter from the Listing Qualifications Department of the Nasdaq Stock Market notifying us that the minimum bid price per share for our common stock fell below $1.00 for a period of 30 consecutive business days and that therefore we did not meet the minimum bid price requirement set forth in Nasdaq Listing Rule 5550(a)(2). The letter also states that we will be provided 180 calendar days, or until January 6, 2020, to regain compliance with the minimum bid price requirement. In accordance with Rule 5810(c)(3)(A), we can regain compliance if at any time during the 180-day period the closing bid price of our common stock is at least $1.00 for a minimum of 10 consecutive business days. If by January 6, 2020, we cannot demonstrate compliance with the Rule 5550(a)(2), we may be eligible for additional time. To qualify for additional time, we will be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for The Nasdaq Capital Market, with the exception of the bid price requirement, and we will need to provide written notice of our intention to cure the deficiency during the second compliance period. If we are not eligible for the second compliance period, then the Nasdaq Staff will provide notice that our securities will be subject to delisting. At such time, we may appeal the delisting determination to a Hearings Panel. We intend to monitor the closing bid price of our common stock and may, if appropriate, consider implementing available options to regain compliance with the minimum bid price requirement. This may include a reverse stock split of our common shares should shareholders approve such proposal at our pending special meeting of shareholders.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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.

Commercialization

Our development efforts over the last 30 years have yielded an extensive patent portfolio as well as critical trade secrets, unpatented technology and proprietary knowledge. Our strategic plan is to utilize our core proprietary technology in superconductivity and leverage our proprietary manufacturing processes to build Conductus wire for use in electrical power devices, including NGEM. As discussed above, we are adapting our unique HTS material deposition techniques to produce our energy efficient, cost-effective and high performance Conductus wire technology for next generation power applications. We have identified several large initial target markets for superconducting wire including energy (wind turbines, cables, fault current limiters), medical (NMR (nuclear magnetic resonance) and MRI (magnetic resonance imaging)), science (high performance magnets) and industrial (motors, generators) applications. We are working with leading industry device manufacturers to complete qualification and acceptance testing of Conductus wire. Our development efforts (including those described under "Our Future Business" 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Our Future Business

We have created several unique capabilities and HTS manufacturing systems related to our Conductus wire platform that we are seeking to produce by leveraging our leadership in superconducting technologies, extensive intellectual property and HTS manufacturing expertise.

HTS Wire Platform

Our Conductus wire products are used in large markets where the advantages of HTS wire are recognized. Our product roadmap currently focuses on superconducting high field magnets used in tokamak fusion devices, including those used in next generation electrical machines (NGEM). Other potential targets for our technology include superconducting high power transmission cable, and superconducting fault current limiters (SFCL).

Our Current Product Focus

Superconducting High Field magnets:

There are a variety of applications that utilize superconducting magnets in order to capitalize on their unique ability to create extremely high magnetic fields. The NMR and MRI machines of today utilize such superconducting magnets for this very reason. Currently, high-field superconducting magnets are manufactured using commercially available superconducting wire such as niobium-titanium (NbTi) or niobium-tin (Nb3Sn). NMR and MRI device manufacturers and manufacturers of other NGEM look towards advances in superconducting technologies to improve the overall performance of their systems by dramatically increasing the magnetic fields while reducing size. In fusion science, the leading state-of-the art tokamak, a device which uses a powerful magnetic field to confine a hot plasma has been limited to NbTi and Nb3Sn material. High demand for a robust, high performance and low cost superconducting wire has spurred rapid development of a next generation alternative. In the last 10 years, new second generation (2G) Rare Earth, Barium, Copper Oxide (ReBCO) superconducting materials have been proven to drastically increase magnetic field strengths, especially at low temperatures. These advanced ReBCO based superconductors now provide an excellent alternative to NbTi and Nb3Sn based materials.

Other Potential Targets For Our Technology

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 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. The primary application for HTS cables is medium voltage feeds to load pockets in dense urban areas. In these high demand zones the grid is often saturated with aging infrastructure. HTS technology brings a considerable amount of power to new locations where the construction of additional transmission to distribution substations, with major transformer assets, is not feasible. Another potential use of HTS power cable is to improve grid power transmission by connecting two existing substations. In dense urban environments many substations often reach capacity limits and require redundant transformer capacity to improve reliability. HTS cables can tie these existing stations together, avoiding very costly transformer upgrades and construction costs.

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. Currently, electrical-utilities use massive 80kA circuit breakers, oversized transformers and fuses to prevent faults from damaging their equipment and protecting against surges. However, once a fault has occurred, standard circuit breakers suffer destructive failure and need to be replaced before service can be restored. In addition, Smart Grid and embedded alternative energy generation enhancements will increase the need for SCFLs. Grid operators face a major challenge in moving power safely and efficiently, from generators to consumers, through several stages of voltage transformation step downs and step ups. At each stage, valuable energy is lost in the form of waste heat. Moreover, while demands are continually rising, space for transformers and substations — especially in dense urban areas — is severely limited. Conventional oil-cooled transformers pose a fire and environmental hazard. Compact, efficient superconducting transformers, by contrast, are cooled by safe, abundant and environmentally benign liquid nitrogen. As an additional benefit, these actively-cooled devices will offer the capability of operating in overload, to twice the nameplate rating, without any loss of life to meet occasional utility peak load demands.

Results of Operations

Three and nine months ended September 28, 2019 compared to the three and nine months ended September 29, 2018

We had revenues of $157,000 in the three and nine months ended September 28, 2019 compared with revenues of $517,000 and $1,556,000 in the three and nine months ended September 29, 2018 all of which revenues related to the first phase of our DOE contract. Funding for the second phase of our DOE contract had been delayed, therefore, in the first half of 2019, there were no government contract revenues. The second phase of our DOE contract is now approved with a start date of December 1, 2019. There were no commercial product revenues in the first nine months of 2019 or in the first nine months of 2018. Commercial product revenues are expected to increase as we reach commercial production of our Conductus wire.

Cost of commercial product revenues includes all direct costs, manufacturing overhead and provision for excess and obsolete inventories. These cost increased to $943,000 in the third quarter of 2019 compared to $604,000 for the third quarter of 2018, an increase of $339,000 or 56%. The cost of commercial product revenues increased by $1,077,000, or 67%, to $2,688,000 in the first nine months of 2019 from $1,611,000 in the same period of 2018. These costs include both variable and fixed cost components. The variable component consists primarily of materials, assembly and test labor, overhead, which includes utilities, transportation costs and warranty costs. The fixed component includes equipment and leasehold depreciation, purchasing expenses and quality assurance costs. As a result, our gross profit margins 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 increase as our revenue and production volumes increase due to higher sales volume and lower amounts of production overhead variances expensed to cost of sales.

The following is an analysis of our product gross loss:

	Three months ended		Nine months ended	
Dollars in thousands	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Commercial product revenues	$ 0	$ 0	$ 0	$ 0
Cost of commercial product revenues	943	604	2,688	1,611
Gross loss	$ (943)	$ (604)	$ (2,688)	$ (1,611)

We had a gross loss of $943,000 in the third quarter of 2019 from the sale of our commercial products compared to a gross loss of $604,000 in the third quarter of 2018. We experienced a gross loss in the three and nine months ended September 28, 2019 due to: our increased preproduction manufacturing efforts to bring our Conductus wire to market and; no revenue to cover our overhead. As we emphasize improving manufacturing processes and increasing our yields at lower than optimal capacity, we expect gross losses to continue through 2019.

In June 2017, we finalized negotiations on a $4.5 million DOE contract and began work on this government contract. Our goals under this contract are to increase current carrying capacity and reduce costs of our Conductus wire. Funding for the second phase of this contact had been delayed, but are now approved for release to us December 1, 2019. Our government contract revenues for the three and nine months ended September 28, 2019 were $157,000 compared with $517,000 and $1,556,000, respectively, for the three and nine months ended September 29, 2018, and were all from phase one of this contract. Our cost of government contract revenues for the three and nine months ended September 28, 2019 were $10,000 and $27,000, respectively, compared to $395,000 and 1,129,000, respectively, at September 29, 2018.

Research and development expenses relate to development of new Conductus wire products and new wire products manufacturing processes. These expenses totaled $0.6 million and $1.9 million, respectively, in the three and nine months ended September 28, 2019 compared to $0.7 million and $1.7 million, respectively, in the three and nine month period ended September 29, 2018.

Selling, general and administrative expenses totaled $1.0 million, and $2.9 million, respectively, in the three and nine months ended September 28, 2019 compared to $1.0 million and $3.1 million, respectively, in the three and nine month period ended September 29, 2018.

Other income of $9,000 and $16,000 in the third quarters of 2019 and 2018, respectively, and other income of $54,000 and $30,000 for the nine months ended September 28, 2019 and September 29, 2018, respectively, was from interest income.

We had a net loss of $2.4 million and $2.2 million for quarters ended September 28, 2019 and September 29, 2018, respectively. The net loss available to common stockholders totaled $0.43 per common share in the third quarter of 2019, compared to a net loss of $0.88 per common share in the third quarter of 2018. For the nine months ended September 28, 2019 our loss totaled $7.3 million compared to a net loss of $5.9 million for the nine months ended September 29, 2018. The net loss available to common stockholders totaled $1.64 per common share in the third quarter of 2019, compared to $3.66 per common share in the third quarter of 2018. The per share loss in 2019 is lower due to the increased number of common shares outstanding at September 28, 2019 compared to September 29, 2018.

Liquidity and Capital Resources

Cash Flow Analysis

As of September 28, 2019, we had a working capital deficit of $0.4 million, including $0.3 million in cash and cash equivalents, compared to working capital of $5.0 million at December 31, 2018, which included $5.6 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.

Cash and cash equivalents decreased by $5.3 million from $5.6 million, at December 31, 2018 to $0.3 million at September 28, 2019.

Cash used in operations totaled $6.8 million in the first nine months of 2019. We used $6.5 million to fund the cash portion of our net loss with $0.3 million used to fund increases in our working capital.

No cash was used in investing activities in the first nine months of 2019.

In the first nine months of 2019, $1.4 million was provided by financing activities from the sale of 1,700,000 shares of common stock. See below for more details.

Financing Activities

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

Subsequent to September 28, 2019, on October 10, 2019 we completed a public offering of an aggregate of 11,834,000 shares of our common stock (or common stock equivalents) and warrants to purchase an aggregate of 11,834,000 shares of common stock with gross proceeds to us of approximately $3.0 million. The warrants are exercisable for five years at an exercise price equal to the public offering price. The offering was priced at $0.25 per share of common stock. The net proceeds to us from the offering, after deducting the placement agent fees and our estimated offering expenses, was approximately $2.4 million. The October 10, 2019 offering did not raise sufficient proceeds for us to execute on our planned business operations over the next 12-months. Our current forecast is that our existing cash and cash equivalents resources will be sufficient to fund our planned operations only into the first quarter of 2020 (See "*Future Liquidity*" below).

On May 23, 2019 we completed a public offering of an aggregate of 1,700,000 shares of our common stock with gross proceeds to us of $1.7 million. The offering was priced at $1.00 per share of common stock. The net proceeds to us from the offering, after deducting the placement agent fees and our estimated offering expenses, was approximately $1.4 million. The placement agent received warrants to purchase 119,000 shares of common stock, at an exercise price of $1.25, that are subject to a nine month lock-up and will expire May 23, 2024.

Contractual Obligations and Commercial Commitments

We lease all of our properties. All of our operations, including our manufacturing facilities, are located in Austin, Texas. We occupy 94,000 square feet in Austin, Texas under a non-cancellable long-term lease that expires in April 2020. Although we currently have excess capacity, we believe this facility can be managed in a flexible and cost effective manner and is adequate to meet current and reasonably anticipated needs for the next two years. This lease also includes a renewal option.

We have not had other material changes outside of the ordinary course of business in our contractual obligations as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Capital Expenditures

We made no investments for fixed assets in the first nine months of 2019. During the remainder of 2019, we expect to make capital expenditures for the purchase of equipment and facilities improvements for our Conductus wire initiative with the actual amount of expenditures related to the levels of our customer orders.

Future Liquidity

For the first nine months of 2019, we incurred a net loss of $7.3 million and had negative cash flows from operations of $6.8 million. In the full 2018 year, we incurred a net loss of $8.1 million and had negative cash flows from operations of $6.9 million. Our ability to realize our investment in infrastructure is dependent on market acceptance and realization of significant revenues from Conductus wire products. Our independent registered public accounting firm has included in its audit reports for 2018 and 2017 an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern within one year after the date the condensed consolidated financial statements were issued.

At September 28, 2019, we had $0.3 million in cash and cash equivalents. Subsequent to September 28, 2019, on October 10, 2019 we completed a public offering of an aggregate of 11,834,000 shares of our common stock (or common stock equivalents) and warrants to purchase an aggregate of 11,834,000 shares of common stock with gross proceeds to us of approximately $3.0 million. The warrants are exercisable for five years at an exercise price equal to the public offering price. The offering was priced at $0.25 per share of common stock. The net proceeds to us from the offering, after deducting the placement agent fees and our estimated offering expenses, was approximately $2.4 million. The October 10, 2019 offering did not raise sufficient proceeds for us to execute on our planned business operations over the next 12-months. Our current forecast is that our existing cash resources will be sufficient to fund our planned operations only into the first quarter of 2020. Unless we can materially grow our revenues from commercial operations, we will need to raise additional capital during the next few months to continue to implement our current business plan and maintain our viability. 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. These factors raise substantial doubt about our ability to continue as a going concern.

Our plans regarding improving our future liquidity will require us to successfully use our expertise and our technology to generate revenues in various ways, including commercial operations, joint ventures and licenses. We have invested and will continue to invest in our Austin, Texas manufacturing facility to enable us to produce our Conductus wire products. However, delays in the timing of our ability to, including but not limited to, raise additional capital, unexpected production delays, and our ability to sell our Conductus wire products in large scale could substantially impact our estimates used in the determination of expected future cash flows and/or expected future profitability.

On October 29, 2019, we announced that we had commenced a process to explore strategic alternatives focused on maximizing shareholder value. Strategic alternatives to consider may include, among others, a strategic investment financing which would allow the company to pursue its current business plan to continue to commercialize the Conductus wire platform, a business combination such as a merger with another party, or a sale of the company. We have not set a timetable for the conclusion of this review, nor have we made any decisions related to any potential strategic alternatives at this time and there can be no assurance that the strategic exploration review will result in a transaction or other strategic change or outcome.

Net Operating Loss Carryforward

As of December 31, 2018, we had net operating loss carryforwards for federal and state income tax purposes. We concluded that under the Internal Revenue Code change of control limitations, a maximum of $20.7 million of our $345.9 net operating loss carryforwards, which expire in the years 2019 through 2038, would be available for reduction of taxable income and reduced both the deferred tax asset and valuation allowance accordingly. Due to the uncertainty surrounding their realization, we recorded a full valuation allowance against our net deferred tax assets. Accordingly, no deferred tax asset has been recorded in the accompanying condensed consolidated balance sheets.

Critical Accounting Policies and Estimates

Our discussion and analysis of our historical financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these condensed consolidated financial statements in conformity with those principles requires us to make estimates of certain items and judgments as to certain future events including for example those related to bad debts, inventories, recovery of long-lived assets (including intangible assets), income taxes, warranty obligations, and contingencies. These determinations, even though inherently subjective and subject to change, affect the reported amounts of our assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. While we believe that our estimates are based on reasonable assumptions and judgments at the time they are made, some of our assumptions, estimates and judgments will inevitably prove to be incorrect. As a result, actual outcomes will likely differ from our accruals, and those differences—positive or negative—could be material. Some of our accruals are subject to adjustment, as we believe appropriate, based on revised estimates and reconciliation to the actual results when available.

On July 24, 2018, we effected a 1-for-10 reverse stock split of our common stock, or the Reverse Stock Split. As a result of the Reverse Stock Split, every ten shares of our pre-Reverse Stock Split common stock were combined and reclassified into one share of our common stock. The Reverse Stock Split did not change the authorized number of shares or the par value of our common stock.

In addition, we identified certain critical accounting policies which affect certain of our more significant estimates and assumptions used in preparing our condensed consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. We have updated our lease accounting policy since issuance of our 2018 Annual Report as a result of the adoption of ASU No. 2016-02, Leases, ASC 842, in the first nine months of 2019. We have not made any material changes to our other policies.

Backlog

Our commercial backlog consists of accepted product purchase orders with scheduled delivery dates during the next twelve months. We had no commercial backlog at September 28, 2019. At September 28, 2019 and December 31, 2018 we had evaluation and qualification orders with unspecified delivery dates for $306,000 and $80,000, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We do not believe that there was a material change in our exposure to market risk at September 28, 2019 compared with our market risk exposure on December 31, 2018. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Risk*" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Item 4. Controls and Procedures

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 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, our 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 quarter ended September 28, 2019 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 errors 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.

PART II
OTHER INFORMATION

Item 1. 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 1A. Risk Factors

A description of the risk factors associated with our business is contained in Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the Securities and Exchange Commission on March 29, 2019. We are not aware of any material changes to those risk factors other than as set forth below:

Our announced process for exploring strategic alternatives for the company may not present any viable transactions for the company that adequately addresses the company's capital requirements and strategic goals.

On October 29, 2019, we announced that we had commenced a process to explore strategic alternatives focused on maximizing shareholder value. Strategic alternatives to consider may include, among others, a strategic investment financing which would allow the company to pursue its current business plan to commercialize the Conductus wire platform (see "*We need to raise additional capital or seek another strategic alternative for the company. 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"* below), a business combination such as a merger with another party, or a sale of the company.

We have not set a timetable for the conclusion of this review, nor have we made any decisions related to any potential strategic alternatives at this time and there can be no assurance that the strategic exploration review will result in a transaction or other strategic change or outcome nor produce any alternatives that are viable for consideration. If we fail to raise additional capital in a timely manner or complete an alternative strategic transaction it is likely to result in a material adverse impact on the company.

We need to raise additional capital or seek another strategic alternative for the company. 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 September 28, 2019, we had $0.3 million in cash and cash equivalents compared to $5.6 million in cash and cash equivalents as of December 31, 2018. Subsequent to September 28, 2019, on October 10, 2019 we completed a public offering of an aggregate of 11,834,000 shares of our common stock (or common stock equivalents) and warrants to purchase an aggregate of 11,834,000 shares of common stock with gross proceeds to us of approximately $3.0 million. The warrants are exercisable for five years at an exercise price equal to the public offering price. The offering was priced at $0.25 per share of common stock. The net proceeds to us from the offering, after deducting the placement agent fees and our estimated offering expenses, was approximately $2.4 million. The October 10, 2019 offering did not raise sufficient proceeds for us to execute on our planned business operations over the next 12-months. Our current forecast is that our existing cash and cash equivalents resources will be sufficient to fund our planned operations only into the first quarter of 2020. Therefore, unless we can materially grow our revenues from commercial operations during such period, we will need to raise additional capital during this fiscal year ending December 31, 2019 to continue to implement our current business plan and maintain our viability.

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, joint ventures and licenses. Because of the expected timing and uncertainty of these factors, we will 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 to grow our commercial resources, we might be forced to make changes to, or delay aspects of, our business plan which could adversely affect our ability to implement our current business plan and ultimately our viability as a company.

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.

Our ability to publicly or privately sell equity securities and the liquidity of our common stock could be adversely affected if we are delisted from the Nasdaq Capital Market or if we are unable to transfer our listing to another stock market.

Our common stock is listed for trading on the Nasdaq Capital Market. Nasdaq has adopted a number of continued listing standards that are applicable to our common stock, including a requirement that the bid price of our common stock be at least $1.00 per share. Failure to maintain the minimum bid price can result in the delisting of our common stock from the Nasdaq Capital Market.

On July 9, 2019, we received a letter from the Listing Qualifications Department of the Nasdaq Stock Market notifying us that the minimum bid price per share for our common stock fell below $1.00 for a period of 30 consecutive business days and that therefore we did not meet the minimum bid price requirement set forth in Nasdaq Listing Rule 5550(a)(2). The letter also states that we will be provided 180 calendar days, or until January 6, 2020, to regain compliance with the minimum bid price requirement. In accordance with Rule 5810(c)(3)(A), we can regain compliance if at any time during the 180-day period the closing bid price of our common stock is at least $1.00 for a minimum of 10 consecutive business days. If by January 6, 2020, we cannot demonstrate compliance with the Rule 5550(a)(2), we may be eligible for additional time to regain compliance. To qualify for additional time, we will be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for The Nasdaq Capital Market, with the exception of the bid price requirement, and we will need to provide written notice of our intention to cure the deficiency during the second compliance period. If we are not eligible for the second compliance period, then the Nasdaq Staff will provide notice that our securities will be subject to delisting. At such time, we may appeal the delisting determination to a Hearings Panel.

We intend to monitor the closing bid price of our common stock and may, if appropriate, consider implementing available options to regain compliance with the minimum bid price requirement. These options include completing a reverse stock split of our common stock for the purpose of meeting the closing bid price requirement. We have scheduled a special meeting of shareholders on November 14, 2019 to consider a proposal to approve amendment of our Restated Certificate of Incorporation, as amended, to effect a reverse stock split of our common stock at a ratio determined by our board of directors within a specified range, with a reduction in the number of authorized shares of our common stock by a corresponding ratio. If approved, such amendment would be implemented (or not implemented) at the sole discretion of our board of directors.

We have previously completed reverse stock splits in connection with complying with our listing requirement and any such option we undertake will not, in of itself, cause us to remain in compliance. On July 24, 2018, we effected a reverse stock split of the issued and outstanding shares of our common stock, at a ratio of one share for ten shares (the "2018 Reverse Stock Split"). The 2018 Reverse Stock Split did not change the authorized number of shares or the par value of our common stock. Certain of the information contained in the historical documents incorporated by reference in this prospectus present information on our common stock on a pre-2018 Reverse Stock Split basis. On July 18, 2016, we effecteda 1-for-15 reverse stock split of our common stock, or the 2016 Reverse Stock Split. As a result of the 2016 Reverse Stock Split, every fifteen shares of our pre-2016 Reverse Stock Split common stock were combined and reclassified into one share of our common stock. Previously, effective March 11, 2013, we effected a 1-for-12 reverse stock split of our common stock, or the March 2013 Reverse Stock Split. As a result of the March 2013 Reverse Stock Split, every twelve shares of our pre-March 2013 Reverse Stock Split common stock were combined and reclassified into one share of our common stock.

If our common stock is delisted by Nasdaq, our common stock may be eligible to trade on the OTC Bulletin Board, OTC QB or another over-the-counter market. Any such alternative would likely result in it being more difficult for us to raise additional capital through the public or private sale of equity securities and for investors to dispose of, or obtain accurate quotations as to the market value of, our common stock. In addition, there can be no assurance that our common stock would be eligible for trading on any such alternative exchange or markets.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits.

Number	Description of Document
31.1	Statement of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Statement of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Statement of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	Statement of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Label Linkbase Document*
101.PRE	XBRL Taxonomy Presentation Linkbase Document

* Filed herewith.
** Furnished, not filed.

SIGNATURES

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

SUPERCONDUCTOR TECHNOLOGIES INC.

Dated: November 12, 2019

/s/ William J. Buchanan
William J. Buchanan
Chief Financial Officer

/s/ Jeffrey A. Quiram
Jeffrey A. Quiram
President and Chief Executive Officer

EXHIBIT 31.1

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

I, Jeffrey A. Quiram, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Superconductor Technologies Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

/s/ Jeffrey A. Quiram
Jeffrey A. Quiram
President and Chief Executive Officer

EXHIBIT 31.2

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

I, William J. Buchanan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Superconductor Technologies Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

/s/ William J. Buchanan

William J. Buchanan
Chief Financial Officer

EXHIBIT 32.1

Statement Pursuant to Section 906 the Sarbanes-Oxley Act of 2002
By
Principal Executive Officer
Regarding Facts and Circumstances Relating to Exchange Act Filings

Dated: November 12, 2019

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

1. the accompanying Quarterly Report on Form 10-Q of Superconductor Technologies for the three month period ended September 28, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Superconductor Technologies Inc.

IN WITNESS WHEREOF, the undersigned has executed this Statement as of the date first written above.

/s/ Jeffrey A. Quiram
Jeffrey A. Quiram
President and Chief Executive Officer

EXHIBIT 32.2

Statement Pursuant to Section 906 the Sarbanes-Oxley Act of 2002
By
Principal Financial Officer
Regarding Facts and Circumstances Relating to Exchange Act Filings

Dated: November 12, 2019

I, William J. Buchanan, Chief Financial Officer of Superconductor Technologies Inc., hereby certify, to my knowledge, that:

1. the accompanying Quarterly Report on Form 10-Q of Superconductor Technologies for the period ended September 28, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Superconductor Technologies Inc.

/s/ William J. Buchanan
William J. Buchanan
Chief Financial Officer