SUPERCONDUCTOR TECHNOLOGIES INC
Form 424B2
August 11, 2005

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PROSPECTUS SUPPLEMENT	Filed Pursuant to Rule 424(b)(2)
(To Prospectus Dated March 16, 2004)	Registration No. 333-111818

17,123,288 Shares
Warrants to Purchase 3,424,658 Shares
Common Stock

We are offering up to 17,123,288 shares of our common stock, warrants to purchase up to 3,424,658 shares of our common stock, and the shares of common stock issuable from time to time on exercise of the warrants. Each investor will receive a warrant to purchase a number of shares equal to 20% of the number shares purchased by the investor in this offering. Each warrant has an exercise price of $1.11 per share, has a term of five years and is exercisable beginning six months after its date of issue. We will pay fees to SG Cowen & Co., LLC, as the placement agent, in connection with this offering. See Plan of Distribution beginning on page S-20 of this prospectus supplement for more information regarding this arrangement.

We are also granting each investor an option for 90 business days after the closing to purchase at the same price an additional amount of the offered securities (common stock and warrants) equal to 20% of their initial purchase. If the investors exercise all of their options, we would issue an additional 3,424,658 shares of our common stock and warrants to purchase up to 684,932 shares of our common stock for aggregate proceeds (after the placement agent fee but before expenses to us) of $2.35 million.

Our common stock is traded on the Nasdaq National Market under the symbol SCON. On August 10, 2005, the last reported sale price for our common stock on the Nasdaq National Market was $0.85 per share.

Our business and an investment in our common stock and warrants involves significant risks. These risks are described under the caption Risk Factors beginning on page S-3 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share of Common Stock and Accompanying Warrant	Maximum Offering
Public offering price	**$ 0.73**	**$ 12,500,000**
Placement agent fee	**$ 0.04**	**$ 750,000**
Proceeds, before expenses, to us	**$ 0.69**	**$ 11,750,000**

We estimate the total expenses of this offering, excluding the placement agent s fee, will be approximately $450,000. The placement agent is not required to sell any specific number or dollar amount of the shares of common stock and warrants offered, but will use its reasonable best efforts to sell the shares of common stock and warrants offered. The offering will end on or prior to August 16, 2005. Pursuant to an escrow agreement among us, the placement agent and an escrow agent, certain funds received in payment for the shares and warrants sold in this offering will be deposited into an interest-bearing escrow account and held until we and the placement agent notify the escrow agent that the offering has closed, indicating the date on which the shares and warrants are to be delivered to the purchasers and the proceeds are to be delivered to us. Because there is no minimum offering amount required as a condition to closing in this offering, the actual public offering amount, placement agent s fee and net proceeds to us, if any, in this offering are not presently determinable and may be substantially less than the maximum offering amounts set forth above.

SG Cowen & Co.

August 10, 2005

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You should rely only on information contained in this prospectus supplement, the accompanying prospectus and the documents we incorporate by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with information that is different. We are offering to sell and seeking offers to buy shares of our common stock only in jurisdictions where such offers and sales are permitted. The information contained in this prospectus supplement and the accompanying prospectus is accurate only as of their respective dates, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus or of any sale of our common stock.

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement is a supplement to the accompanying prospectus that is also a part of this document. This prospectus supplement and the accompanying prospectus are part of a shelf registration statement that we filed with the Securities and Exchange Commission. Under the shelf registration process, we may offer from time to time shares of our common stock up to an aggregate amount of $80,000,000, of which this offering is a part. In the accompanying prospectus, we provide you with a general description of the securities we may offer from time to time under our shelf registration statement. In this prospectus supplement, we provide you with specific information about the shares of our common stock that we are selling in this offering. This prospectus supplement and the accompanying prospectus and the documents incorporated by reference herein and therein include important information about us, our common stock and warrants being offered and other information you should know before investing. This prospectus supplement also adds, updates and changes information contained in the accompanying prospectus. You should read both this prospectus supplement and the accompanying prospectus as well as the additional information described under Where You Can Find More Information before investing in shares of our common stock and warrants.

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PROSPECTUS SUPPLEMENT SUMMARY

The items in the following summary are described in more detail in this prospectus supplement, the prospectus or in the documents incorporated or deemed incorporated by reference herein or therein. This summary provides an overview of selected information and does not contain all of the information that you should consider. Therefore, you should also read the more detailed information in this prospectus supplement, the prospectus and the documents incorporated by reference herein or therein. Unless otherwise indicated, all information in this prospectus supplement assumes no exercise of the warrants issued to investors and no exercise of the options to purchase additional shares common stock and warrants to purchase common stock that we have granted to the investors. All references to we, us, our, and similar terms refer to Superconductor Technologies Inc. and its subsidiaries on a consolidated basis.

Our Company

We develop, manufacture and market high performance infrastructure products for wireless voice and data applications. Our products help maximize the performance of wireless telecommunications networks by improving the quality of uplink signals from mobile wireless devices. Our products increase capacity utilization, lower dropped and blocked calls, extend coverage, and enable higher wireless data throughput all while reducing capital and operating costs. SuperLink, our original product, incorporated patented high-temperature superconductor (HTS) technology to create a receiver front-end that enhances network performance. Currently, we are leveraging our expertise and proprietary technology in RF engineering to expand our product line beyond HTS technology. We believe our RF engineering expertise provides us with a significant competitive advantage in the development of high performance, cost-effective solutions for the front end of wireless telecommunications networks.

Our products are divided into three distinct product families:

· *SuperLink*. In order to receive uplink signals from wireless handsets, base stations require a wireless filter system to eliminate, or filter out, out-of-band interference. SuperLink combines HTS filters with a proprietary cryogenic cooler and a cooled low-noise amplifier. The result is a highly compact and reliable receiver front-end that can simultaneously deliver both high selectivity (interference rejection) and high sensitivity (detection of low level signals). We believe that SuperLink offers significant advantages over conventional filter systems.

· *AmpLink*. AmpLink is our lower-cost receiver front-end product designed specifically to address the sensitivity requirements of wireless base stations. The AmpLink is a ground-mounted unit which includes a high-performance amplifier and up to six dual duplexers. Ground-mounted solutions eliminate the installation and maintenance costs associated with tower mounted amplifiers.

· *SuperPlex*. SuperPlex, our antenna sharing solution, is a line of multiplexers that provides extremely low insertion loss and excellent cross-band isolation. SuperPlex high-performance multiplexers are designed to eliminate the need for additional base station antennas and reduce infrastructure costs. Relative to competing technologies, we believe these products offer increased transmit power delivered to the base station antenna, higher sensitivity to subscriber handset signals, fast and cost-effective network overlays.

The Offering

Securities offered	17,123,288 shares of common stock and warrants to purchase an additional 3,424,658 shares of common stock
Common stock to be outstanding after this offering	124,834,314 shares
Warrant terms	Each investor will receive a warrant to purchase a number of shares equal to 20% of the number shares purchased by the investor in this offering. Each warrant has an exercise price of $1.11 per share, has a term of

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	five years and is exercisable beginning six months after its date of issue. We may redeem the warrants, upon 30 days written notice, for $0.10 per warrant any time after August 16, 2007, if the fair market value of our common stock exceeds 200% of the initial exercise price (i.e., $2.22 per share) for 20 out of 30 consecutive trading days.
Option to purchase additional offered securities	Each investor will have an option for 90 business days after the closing to purchase at the same price an additional amount of the offered securities (common stock and warrants) equal to 20% of their initial purchase. If the options are exercised in their entirety, we will issue an additional 3,424,658 shares of our common stock and warrants to purchase up to 684,932 shares of our common stock.
Use of proceeds	We intend to use the net proceeds from the sale of the common stock and warrants under this prospectus supplement for working capital and general corporate purposes. General corporate purposes may include repayment of debt and capital expenditures.
Nasdaq National Market symbol	SCON

The total number of shares of common stock outstanding after this offering is based on 107,711,026 shares outstanding as of July 2, 2005, and excludes:

- 3,424,658 shares of common stock issuable at an exercise price of $1.11 per share upon exercise of the warrants issued in this offering;
- 3,424,658 shares of common stock, and warrants to purchase 684,932 shares of common stock at $1.11 per share, both issuable upon exercise of the investors option to purchase additional offered securities for 90 business days;
- 11,942,015 shares of common stock issuable upon exercise of stock options at a weighted average exercise price of $4.21 per share, under our stock plans;
- 6,078,873 additional shares of common stock reserved for issuance under various outstanding warrant agreements, at a weighted average exercise price of $6.24 per share; and
- 4,140,441 additional shares of common stock reserved for future issuance under our 2003 Equity Incentive Plan.

Unless otherwise specifically stated, information throughout this prospectus supplement assumes no exercise of outstanding options or warrants to purchase shares of common stock, no exercise of the warrants issued in this offering and no exercise of the investors option to purchase additional offered securities for 90 business days.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should consider the following risk factors, as well as other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus, before deciding to purchase any shares of our common stock. The risks and uncertainties described are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. If any of these risks occur, our business could suffer, the market price of our common stock could decline and you could lose all or part of your investment in our common stock.

Risks Related to Our Business

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

In each of our last five years, we have experienced significant net losses and negative cash flows from operations. If we fail to increase our revenues, we may not achieve and maintain profitability and may not meet our expectations or the expectations of financial analysts who report on our stock.

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

Our independent registered public accounting firm has included in their report for 2004 an explanatory paragraph expressing doubt about our ability to continue as a going concern due to past losses and negative cash flows. They included a similar explanatory paragraph in their audit report for 2002 and 2003. During 2004, we incurred a net loss of $31.2 million and negative cash flows from operations of $21.6 million. For the six months ended July 2, 2005, we incurred a net loss of $7.6 million and negative cash flows from operations of $4.2 million.

We expect our existing cash resources, together with our line of credit and a planned inventory reduction, will be sufficient to fund our planned operations for at least the next twelve months. We have more inventory than required for current sales volumes and are using our excess inventory as a material source of funding. We believe the key factors to our liquidity will be our ability to successfully execute on our plans to increase sales levels and to convert excess inventory to cash. Our cash requirements will also depend on numerous other variable factors, including the rate of growth of sales, the timing and levels of products purchased, payment terms and credit limits from manufacturers, and the timing and level of accounts receivable collections. If actual cash flows deviate significantly from forecasted amounts, we may require additional financing in the next twelve months.

We cannot assure you that additional financing (public or private) will be available on acceptable terms or at all. If we issue additional equity securities to raise funds, the ownership percentage of our existing stockholders would be reduced, and we could deplete our reserve of authorized but unissued common stock. New investors may demand rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise needed funds, we would also be forced to make further substantial reductions in our operating expenses, which could adversely affect our ability to implement our current business plan and ultimately our viability as a company.

We rely upon a few customers for the majority of our commercial revenues and the loss of any one of these customers, or a significant loss, reduction or rescheduling of orders from any of these customers, would have a material adverse effect on our business, results of operations and financial condition.

We sell most of our products to a small number of wireless carriers, and we expect that this will continue. We derived 87% of our commercial product revenues from ALLTEL and Verizon Wireless in 2004 and 85% of our commercial product revenues from ALLTEL and Verizon Wireless in 2003. Our future success depends upon the wireless carriers continuing to purchase our products, and any fluctuations in demand from such customers would negatively impact our results of operations. Unanticipated demand fluctuations can have a negative impact on our revenues and business and an adverse effect on our results of operations and financial condition.

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In addition, our dependence on a small number of major customers exposes us to numerous other risks, including:

- a slowdown or delay in the deployment, upgrading or improvement of wireless networks by any one customer could significantly reduce demand for our products;
- reductions in a single customer s forecasts and demand could result in excess inventories;
- each of our customers have significant purchasing leverage over us to require changes in sales terms including pricing, payment terms and product delivery schedules; and
- concentration of accounts receivable credit risk, which could have a material adverse effect on our liquidity and financial condition if one of our major customers declared bankruptcy or delayed payment of their receivables.

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

The wireless communication industry is highly concentrated, which limits the number of potential customers, and further industry consolidation could result in the loss of key customers.

The wireless communication industry is highly concentrated in nature and may become more concentrated due to anticipated industry consolidation. As a result, we believe that the number of potential customers for our products will be limited. We also face significant risks in the event any of our key customers is acquired by a company that has not adopted our technology or not adopted it to the same extent. In that event, we could face a significant decline in our sales to the acquired customer.

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

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

- the lack of any contractual obligation by our customers to purchase their forecasted demand for our products;
- variations in the timing, cancellation, or rescheduling of customer orders and shipments;
- high fixed expenses that may disproportionately impact operating expenses, especially during a quarter with a sales shortfall; and
- discounts given to certain customers for large volume purchases.

The nature of our business requires that we promptly ship products after we receive orders. This means that we typically do not have a significant backlog of unfilled orders at the start of each quarter. We have also regularly generated a large percentage of our revenues in the last month of a quarter. Our major customers generally have no contractual obligation to purchase forecasted amounts and may cancel orders, change delivery schedules or change the mix of products ordered with minimal notice and minimal penalty. As a result of these factors, we may not be able to accurately predict our quarterly sales. Any shortfall in sales relative to our quarterly expectations or any delay of customer orders would adversely affect our revenues and results of operations.

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

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Our expense levels are based in large part on expectations of future revenue. These items of expense are relatively fixed in the short-term. We may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Consequently, operating results in any given period are likely to be disproportionately harmed if revenue in that period falls below expectations.

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

Our sales cycles are unpredictable, making future performance uncertain.

The sales cycle for telecommunications products includes identification of decision makers within the customers organizations, development of an understanding of customer-specific performance and economic issues, convincing the customer through field trial reports of the benefits of systems offered, negotiation of purchase orders and deployment. Customers who purchase our systems must commit a significant amount of capital and other resources, and sales are subject to delays beyond our control. Our customers must consider budgetary constraints, comply with internal procedures for approving large expenditures and complete whatever testing is necessary for them to integrate new technologies that will affect their key operations. Customer delays can lengthen the sales cycles and have a material adverse effect on our business.

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

Because we rely on wireless network operators for product purchases, any substantial decrease or delay in capital spending patterns in the wireless communication industry may harm our business. Demand from customers for our products depends to a significant degree upon the magnitude and timing of capital spending by these customers for constructing, rebuilding or upgrading their systems. The capital spending patterns of wireless network operators depend on a variety of factors, including access to financing, the status of federal, local and foreign government regulation and deregulation, changing standards for wireless technology, overall demand for wireless services, competitive pressures and general economic conditions. In addition, capital spending patterns in the wireless industry can be subject to some degree of seasonality, with lower levels of spending in the first and third calendar quarters, based on annual budget cycles.

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

We currently purchase substrates for growth of high-temperature superconductor thin-films from a single supplier because of the quality of their substrates. A thin film is a thin layer of high-temperature superconductor material. There are additional components that we source from a single vendor due to the present volume. Our reliance on sole or limited source suppliers involves certain risks and uncertainties, most of which are beyond our control. These include the possibility of a shortage or the discontinuation of certain key components. Any reduced availability of these parts or components when required could impair our ability to manufacture and deliver our systems on a timely basis and result in the cancellation of orders, which could harm our business.

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

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

The average selling price of our products has decreased over the years. We anticipate customer pressure on our product pricing will continue for the foreseeable future. We have plans to further reduce the manufacturing cost of our products, but there is no assurance that our future cost reduction efforts will keep pace with price erosion. We will need to further reduce our manufacturing costs through engineering improvements and economies of scale in production and purchasing in order to achieve adequate gross margins. We may not be able to achieve the required product cost savings at a rate needed to keep pace with competitive pricing pressure. Additionally, we may be forced to discount future orders. If we fail to reach our cost saving objectives or we are required to offer future discounts, our business may be harmed.

Changes in the mix of our sales channels could cause fluctuations in our gross profit and future operating results.

We currently sell most of our products directly to wireless network operators in the United States. We plan, however, to expand our business by selling directly to manufacturers of base station equipment on an OEM basis. If and when changes in the mix of our sales channels occur, our gross profit and operating margins may be adversely affected.

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

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

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

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

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

Our products incorporate a number of technologies, including high-temperature superconductor technology, technology related to other materials, and electronics technologies. Our patent positions, and that of other companies using high-temperature superconductor technology, is uncertain and there is significant risk that others, including our competitors or potential competitors, have obtained or will obtain patents relating to our products or technologies or products or technologies planned to be introduced by us.

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

We were engaged in a patent dispute with ISCO International, Inc. from July 2001 to May 2005 relating to U.S. Patent No. 6,263,215 entitled Cryoelectronically Cooled Receiver Front End for Mobile Radio Systems. ISCO alleged that some of our HTS products infringed the ISCO patent. We prevailed at trial. The jury returned a unanimous verdict that our products did not infringe the ISCO patent and that the ISCO patent is invalid and unenforceable. The jury s verdict was upheld on appeal, and we do not expect any further legal action related to this matter.

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

Wireless telecommunication equipment is characterized by rapidly advancing technology. Our success depends upon our ability to keep pace with advancing wireless technology, including materials, processes and industry standards. For example, we had to redesign our SuperLink product to convert from thallium barium calcium copper oxide to yttrium barium copper oxide in order to reduce the product cost and compete with other technologies. However, even with the lower cost HTS material, SuperLink may not ultimately prove commercially competitive against other current technologies or those that may be discovered in the future.

We will have to continue to develop and integrate advances in technology. We will also need to continue to develop and integrate advances in complementary technologies. We cannot assure you that our development efforts will not be rendered obsolete by research efforts and technological advances made by others.

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

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

Our failure to anticipate and respond to developments in the wireless telecommunications market could substantially harm our business.

Our efforts are focused on the wireless telecommunications market, including the 2G, 2.5G and 3G markets. The concentration of our resources on the wireless telecommunications market makes us potentially vulnerable to changes in this market, such as new technologies, future competition, changes in availability of capital resources or regulatory changes that could affect the competitive position and rate of growth of the wireless industry.

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

Our products compete with a number of alternative approaches and technologies that increase the capacity and improve the quality of wireless networks. Some of these alternatives may be more cost effective or offer better performance than our products. Wireless network operators may opt to increase the number of transmission stations, increase tower heights, install filters and amplifiers at the top of antennas or use advanced antenna technology in lieu of purchasing our products. We may not succeed in competing with these alternatives.

We depend upon government contracts for a substantial portion of revenue, and our business may suffer if significant contracts are terminated or adversely modified or we are unable to win new contracts.

We derive a portion of our revenue from a few large contracts with the U.S. government. As a result, a reduction in, or discontinuance of, the government s commitment to current or future programs could materially reduce government contract revenue.

Contracts involving the U.S. government may include various risks, including:

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termination by the government;

reduction or modification in the event of changes in the government s requirements or budgetary constraints;

increased or unexpected costs causing losses or reduced profits under contracts where prices are fixed or unallowable costs under contracts where the government reimburses for costs and pays an additional premium;

risks of potential disclosure of confidential information to third parties;

the failure or inability of the main contractor to perform its contract in circumstances where either Superconductor is a subcontractor;

the failure of the government to exercise options for additional work provided for in the contracts; and

the government s right in certain circumstances to freely use technology developed under these contracts.

The programs in which we participate may extend for several years, but are normally funded on an annual basis. The U.S. government may not continue to fund programs under which we have entered into contracts. Even if funding is continued, we may fail to compete successfully to obtain funding pursuant to such programs.

All costs for services under government contracts are subject to audit, and the acceptance of such costs as allowable and allocable is subject to federal regulatory guidelines. We record contract revenues in amounts which we expect to be realized upon final audit settlement. Any disallowance of costs by the government could have an adverse effect on our business, operating results and financial condition. We cannot assure you that audits and adjustments will not result in decreased revenues and net income for those years. Additionally, because of our participation in government contracts, we are subject to audit from time to time for our compliance with government regulations by various agencies. Government agencies may conduct inquiries or investigations that may cover a broad range of activity. Responding to any such audits, inquiries or investigations may involve significant expense and divert management s attention. In addition, an adverse finding in any such audit, inquiry or investigation could involve penalties that may harm our business.

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

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

If we are unable to forecast our inventory needs accurately, we may be unable to obtain efficient manufacturing capacity or may incur unnecessary costs and produce excess inventory.

We forecast our inventory needs based on anticipated product orders to determine manufacturing requirements. If we overestimate our requirements, we may have excess inventory, and our suppliers may as well, which could increase our costs. If we underestimate our requirements, our suppliers may have inadequate inventory, which could interrupt manufacturing and result in delays in shipments and recognition of revenues. In addition, lead times for ordering materials and components vary significantly and depend on factors such as the specific supplier, contract terms and demand for each component at a given time. Accordingly, if we inaccurately forecast demand, we may be unable to obtain adequate manufacturing capacity from our suppliers to meet customers delivery requirements, which would harm our business.

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

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

Regulatory changes negatively affecting wireless communications companies could substantially harm our business.

The Federal Communications Commission strictly regulates the operation of wireless base stations in the United States. Other countries also regulate the operation of base stations within their territories. Base stations and equipment marketed for use in base stations must meet specific technical standards. Our ability to sell our high-temperature superconductor filter subsystems will depend upon the rate of deployment of other new wireless digital services, the ability of base station equipment manufacturers and of base station operators to obtain and retain the necessary approvals and licenses, and changes in regulations that may impact the product requirements. Any failure or delay of base station manufacturers or operators in obtaining necessary approvals could harm our business.

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

We may explore opportunities to acquire companies or technologies in the future. Other than the acquisition of Conductus, Inc. in 2002, we have not made any such acquisitions or investments to date and, therefore, our ability as an organization to make acquisitions or investments is unproven. Entering into an acquisition entails many risks, any of which could adversely affect our business, including:

- failure to integrate operations, services and personnel;
- the price paid may exceed the value eventually realized;
- loss of share value to existing stockholders as a result of issuing equity securities as part or the entire purchase price;
- potential loss of key employees from either our then current business or any acquired business;
- entering into markets in which we have little or no prior experience;
- diversion of financial resources and management s attention from other business concerns;
- assumption of unanticipated liabilities related to the acquired assets; and
- the business or technologies acquired or invested in may have limited operating histories and may be subjected to many of the same risks to which we are exposed.

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

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

Our ability to successfully offer our products and implement our business plan in a rapidly evolving market requires an effective planning and management process. Anticipated growth in future operations will continue to place a significant strain on management systems and resources. We expect that we will need to continue to improve

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our financial and managerial controls, reporting systems and procedures, and will need to continue to expand, train and manage our work force worldwide. Furthermore, we expect that we will be required to manage multiple relationships with various customers and other third parties.

Compliance with environmental regulations could be especially costly due to the hazardous materials used in the manufacturing process.

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

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

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

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

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

Risks Related to Our Common Stock

Our stock price is volatile.

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

- our perceived prospects;
- variations in our operating results and whether we have achieved key business targets;
- changes in, or our failure to meet, earnings estimates;
- changes in securities analysts buy/sell recommendations;
- differences between our reported results and those expected by investors and securities analysts;
- announcements of new contracts by us or our competitors;

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

general economic, political or stock market conditions.

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

We may not be able to maintain our Nasdaq NMS listing.

Our common stock currently is listed on the Nasdaq National Market. However, we cannot assure you that it will continue to be so listed. The Nasdaq National Market has rules for maintaining a listing, including a minimum bid price for common stock of $1.00 per share. On April 4, 2005, we received notice from Nasdaq that we are subject to de-listing for failing to meet this minimum price. We have until October 3, 2005 to regain compliance. If we cannot do so by that date, and assuming we continue to meet other listing requirements, we can request transfer to the Nasdaq SmallCap Market and receive an additional 180 day period to regain compliance. If our stock price continues to trade below the minimum bid price requirement, our stockholders have granted the board of directors discretionary authority to implement a reverse stock split in a range of one-for-two to one-for-ten anytime prior to May 25, 2006.

We cannot predict, however, whether a reverse stock split would achieve the desired result of maintaining our listing on the Nasdaq Stock Market. The price per share of our common stock is also a function of our financial performance and other factors, some of which may be unrelated to the number of shares outstanding. Accordingly, there can be no assurance that the closing bid price of the our common stock after a reverse stock split would increase in an amount proportionate to the decrease in the number of issued and outstanding shares, or would increase at all, or that any increase can be sustained for a prolonged period of time or a sufficient amount of time to regain compliance with the Nasdaq minimum price requirement.

Even if we regain compliance, we may not meet all of the continued listing requirements in the future, particularly if the price of our common stock again falls below $1.00 per share for thirty consecutive trading days. If our common stock is not listed with Nasdaq, it may be difficult or impossible to sell it.

We have discretionary authority from our stockholders to implement a reverse stock split during the next year, and a reverse stock split could significantly reduce our total market capitalization.

At our 2005 annual meeting, we sought and received from our stockholders discretionary authority to implement a reverse stock split in the range of 1-for-2 to 1-for-10 within one year of the meeting date without further stockholder approval. We sought this authority in response to the fact that our stock price had been trading below $1.00 per share the minimum price for maintaining our Nasdaq listing. We can regain compliance if the bid price of the common stock closes at $1.00 per share or more for a minimum of 10 consecutive trading days before the end of the 180-day grace period. The reverse stock split is one method for achieving this goal. We value our listing on the NASDAQ National Market and would most likely implement the reverse split if necessary to maintain its listing.

There can be no assurance that the per share price of the common stock after the reverse stock split will actually increase in an amount proportionate to the decrease in the number of outstanding shares. In other words, the Company s total market capitalization could decrease significantly as a result of the reverse stock split. In determining whether to implement the reverse stock split and selecting the exchange ratio, our Board of Directors will consider factors such as:

the status of the common stock listing on the NASDAQ Stock Market;

the then prevailing trading price and trading volume for the common stock;

the anticipated impact of the reverse stock split on the trading price of the common stock; and

prevailing general market and economic conditions.

The Board of Directors will have sole discretion as to the exact timing and precise exchange ratio of the reverse stock split for one year following the date of the annual meeting. The Board of Directors may also determine that the reverse stock split is no longer in the best interests of the Company and decide to abandon the reverse stock split, at any time before, during or after the meeting and prior to its effectiveness, without further action by the stockholders.

You will experience immediate dilution in the book value per share of the common stock you purchase.

Because the price per share of our common stock being offered hereby is substantially higher than the book value per share of our common stock, you will suffer substantial dilution in the net tangible book value of the common stock you purchase in this offering. Based on the public offering price of $0.73 per share in this offering, if you purchase shares of common stock in this offering, you will suffer immediate and substantial dilution of $0.49 per share in the net tangible book value of the common stock. See Dilution on page S-19 for a more detailed discussion of the dilution you will incur in this offering.

Our management will have broad discretion with respect to the use of the proceeds of this offering.

We have not designated the amount of net proceeds we will receive from this offering for any particular purpose. Accordingly, our management will have broad discretion as to the application of these net proceeds and could use them for purposes other than those contemplated at the time of this offering. Our stockholders may not agree with the manner in which our management chooses to allocate and spend the net proceeds.

We are a defendant in a securities class action lawsuit and related derivative lawsuit, and, if any future action were to result in an unfavorable resolution, it could adversely affect our reputation, profitability and share price.

We were named as a defendant in several substantially identical class action lawsuits filed in the United States District Court for the Central District of California in April 2004. The cases were consolidated in August 2004, and the plaintiffs filed an amended consolidated complaint in October 2004. We filed a motion to dismiss the complaint in November 2004. The plaintiffs allege securities law violations by us and certain of our officers and directors under SEC Rule 10b-5 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended. The complaint was filed on behalf of a purported class of people who purchased our stock during the period between January 9, 2004 and March 1, 2004. The plaintiffs base their allegations primarily on the fact that we did not achieve our forecasted revenue guidance of $10 to $13 million for the first quarter of 2004. The complaint seeks unspecified damages. We agreed to settle this matter for a $4 million payment which was paid by our insurance carrier. We also agreed to pay up to $50,000 for the cost of notification to the class. On August 8, 2005, we received court approval of this settlement.

We and certain of our current and former directors and officers were named as defendants in a related derivative lawsuit filed in California Superior Court (Santa Barbara County) in June 2005. The complaint is styled as a shareholder derivative action brought for the benefit of the corporation against its directors and officers. The complaint seeks to recover damages on behalf of the corporation from the named directors and officers for alleged breaches of fiduciary duty, waste and mismanagement. The plaintiff bases his allegations primarily on the fact that we did not achieve our forecasted revenue guidance for the first quarter of 2004. The underlying factual allegations are generally the same as those in the recently settled class action. We believe the allegations are without merit. We are only a nominal defendant and would not be liable for any damage award. However, we are required to advance defense costs to the individual defendants pursuant to the Company s Certificate of Incorporation and By-laws, the Delaware General Corporation Law and existing indemnification agreements and therefore may incur legal costs related to this lawsuit depending on the extent to which our D&O insurance covers such costs. Further, if the outcome is unfavorable to any of the named directors or officers, our reputation and share price could be adversely affected.

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

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

As of July 2, 2005, we had outstanding warrants and options exercisable for an aggregate of 18,020,888 shares of common stock at a weighted average exercise price of $4.89 per share. We have registered the issuance of all these shares, and they will be freely tradable by the exercising party upon issuance. The holders may sell these shares in the public markets from time to time, without limitations on the timing, amount or method of sale. As our stock price rises, the holders may exercise their warrants and options and sell a large number of shares. This could cause the market price of our common stock to decline.

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

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

In addition, our board of directors has the authority to issue up to 2,000,000 shares of preferred stock and to determine the terms, rights and preferences of this preferred stock, including voting rights of those shares, without any further vote or action by the stockholders. The rights of the holders of common stock may be subordinate to, and adversely affected by, the rights of holders of preferred sock that may be issued in the future. The issuance of preferred stock could also make it more difficult for a third party to acquire a majority of our outstanding voting stock, even at a premium over our public trading price.

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

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

We have never declared or paid cash dividends on our common stock and do not plan to pay any cash dividends in the near future. Our current policy is to retain all funds and earnings for use in the operation and expansion of our business. In addition, our debt agreements prohibit the payment of cash dividends or other distributions on any of our capital stock except dividends payable in additional shares of capital stock.

There is no public market for the warrants to purchase common stock issued in this offering.

The warrants will be new securities for which there is no established public trading market, and we do not expect a market to develop. In addition, we do not intend to apply for listing of the warrants on any securities exchange or for quotation on Nasdaq. Without an active market, the liquidity of the warrants will be limited.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the documents incorporated by reference into it contain forward-looking statements that involve risks and uncertainties. We have made these statements in reliance on the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Our forward-looking statements relate to future events or our future performance and include, but are not limited to, statements concerning our business strategy, future commercial revenues, market growth, capital requirements, new product introductions, expansion plans and our funding requirements. Other statements contained in our filings that are not historical facts are also forward-looking statements. We have tried, wherever possible, to identify forward-looking statements by terminology such as may, will, could, should, expects, anticipates, intends, plans, believes, seeks, estimates and other comp

Forward-looking statements are not guarantees of future performance and are subject to various risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed in forward-looking statements. They can be affected by many factors, including, those discussed under the caption Risk Factors on page S-3 of this Prospectus Supplement and under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations on page 21 of our most recent Quarterly Report on Form 10-Q filed with the SEC. Forward-looking statements are based on information presently available to senior management, and we do not assume any duty to update our forward-looking statements.

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USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be approximately $11.4 million, or approximately $13.7 million if the investors option to purchase additional shares and warrants is exercised in full, after deducting fees due the placement agent and our estimated offering expenses, as described in the Plan of Distribution on page S-20. We currently intend to use the net proceeds from the sale of common stock and warrants under this prospectus supplement for working capital and general corporate purposes. General corporate purposes may include repayment of debt and capital expenditures. In addition, we may use a portion of any net proceeds to acquire complementary products, technologies or businesses. We will have significant discretion in the use of any net proceeds. Investors will be relying on the judgment of our management regarding the application of the proceeds of any sale of the securities. We may invest the net proceeds temporarily until we use them for their stated purpose.

DESCRIPTION OF SECURITIES

Capital Stock

Our Certificate of Incorporation authorizes us to issue 250,000,000 shares of common stock, $.001 par value per share, and 2,000,000 shares of preferred stock, $.001 par value per share. As of July 2, 2005, there were 107,711,026 shares of common stock, and no shares of preferred stock, outstanding.

Common Stock

The common stock issued under this prospectus is, or will be upon payment of the exercise price of the warrants (in the case of shares of common stock issuable upon exercise of the warrants), fully paid and nonassessable. Subject to the rights of the holders of our outstanding preferred stock (which is authorized but unissued), if any, holders of common stock:

- are entitled to any dividends validly declared;
- will share ratably in our net assets in the event of a liquidation; and
- are entitled to one vote per share.

The common stock has no conversion rights. Holders of common stock have no preemption, subscription, redemption or call rights related to those shares.

Registrar & Transfer Company is the transfer agent and registrar for our common stock and the warrant agent for the warrants issued in this offering.

Warrants

Each warrant entitles the holder to purchase from us up to the number of shares of common stock set forth in such warrant at an exercise price of $1.11 per share. The warrant exercise price is equal to 130% of the last bid price of our common stock on the Nasdaq National Market on August 10, 2005 and is subject to adjustment to no less than 100% of such bid price based on certain antidilution protections.

Exercise Period. The warrants are exercisable beginning on or after the 181st day after their date of grant (Grant Date) to and including 5:00 P.M., Eastern Standard Time (EST), on the fifth anniversary of the Grant Date, unless the expiration date is extended as described below under Black-out Period. Warrants may be exercised in whole or in part, but only for full shares of common stock, and any portion of a warrant not exercised prior to the expiration date shall be and become void and of no value.

Exercise. A warrant may be exercised if there is a then effective registration statement, such as the registration statement of which this prospectus supplement and the accompanying prospectus form a part, covering the common stock to be issued upon exercise. At any time that such a registration statement is not effective, a warrant may only be exercised if the holder makes customary representations and agrees to customary transfer restrictions that we request in order to ensure that we comply with all applicable laws when we issue the shares of common stock upon exercise of the warrant. In addition to making any necessary representations and agreeing to any necessary transfer restrictions, an investor must surrender the warrant certificate on or before the expiration date of the warrant, at the offices of our warrant agent, with the form of Election To Purchase completed and executed as indicated. A warrant must be exercised for cash, by wire transfer of immediately available funds for the number of shares with respect to which the warrant is being exercised, unless there is not an effective registration statement covering the common stock to be issued upon exercise of the warrant, in which case a holder may exercise the warrant for cash or by net exercise. A holder who elects to exercise a warrant by net exercise, rather than for cash, upon exercise will receive a number of shares of common stock equal in value to the aggregate value of the warrant (or the portion thereof being exercised).

Black-out Period. The shares issuable upon exercise of the warrants are covered by this prospectus supplement and the accompanying prospectus. However, we may suspend the ability of warrant holders to exercise warrants in any manner if an event occurs and is continuing that we believe, in our good faith judgment, will make this prospectus supplement, the accompanying prospectus or the documents incorporated by reference herein contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the other statements in this prospectus supplement, the accompanying prospectus and the documents incorporated herein by reference, not misleading, and we have determined, in our good faith judgment, that either disclosure of the event would be to the detriment of the company or the disclosure otherwise relates to a business transaction that has not yet been publicly disclosed. If we have suspended the ability of warrant holders to exercise warrants as of the expiration date of the warrants, the expiration date will then be extended for the number of calendar days covered by the particular suspension, but only up to ten days beyond the end of the particular suspension.

Antidilution Adjustments. The warrants are subject to provisions that adjust the number of shares that may be purchased by the holders and the exercise price in the event of a common stock split, payment of stock dividend on common stock or certain other events.

If we effect any merger or consolidation, effect any sale of all or substantially all of our assets, complete any tender offer or exchange offer where holders of our common stock are permitted to tender or exchange their shares for other securities, cash or property, or effect any reclassification of our common stock pursuant to which such common stock is effectively converted into or exchanged for other securities, cash or property, then each holder s warrant will become the right to receive, upon exercise of such warrant, in lieu of our common stock, the same amount and kind of securities, cash or property as it would have been entitled to receive upon the occurrence of such transaction, if the warrant had been exercised immediately prior to such transaction.

The warrants contain antidilution adjustment provisions in the event we issue additional shares of common stock or other securities exercisable or exchangeable for shares of common stock at an effective net price to us per share of common stock that is less than the then current exercise price. In this event, the warrant exercise price will be downwardly adjusted, upon each such issuance, based upon a broad-based weighted average formula, but the exercise price will not be adjusted below $0.85 per share, the closing bid price of our common stock on the Nasdaq National Market on August 10, 2005.

No antidilution adjustment will be made to the exercise price of the warrants upon the issuance of any equity securities or any securities convertible into equity securities in connection with employee benefit plans, equipment leases or similar financing transactions, any antidilution adjustment to any of our securities outstanding on the Grant Date, any other issuances which are not capital raising transactions, or to strategic partners for non-cash consideration.

Redemption. We may redeem, upon 30 days written notice, the warrants for $0.10 per warrant any time after August 16, 2007 if the fair market value of our common stock exceeds 200% of the initial exercise price (i.e., $2.22 per share) for 20 out of 30 consecutive trading days.

Delivery of Certificates. Upon exercise of a warrant, we will promptly deliver a certificate representing the shares of common stock issuable upon exercise of the warrant. In addition, if there is a then effective registration statement covering the issuance of the shares of common stock upon exercise of the warrant, we will, if requested by the holder, deliver the shares electronically through The Depository Trust Corporation or another established clearing corporation performing similar functions. Share certificates issued at times when there is not a then effective registration statement covering the underlying common stock will include customary legends restricting transfer to the extent we determine necessary to ensure our compliance with applicable laws.

Additional Provisions. The above summary of certain terms and provisions of the warrants is qualified in its entirety by reference to the detailed provisions of the warrant agreements and certificates, the form of which will be filed as an exhibit to a current report on Form 8-K that will be incorporated herein by reference. Those agreements may be amended with the consent of holders of warrants exercisable for two-thirds of the common stock issuable upon exercise of the then outstanding warrants, provided that no such amendment shall adversely affect any warrant holder differently than it affects all other warrant holders unless such warrant holder consents. In addition, we may amend the agreements without the consent of any of the warrant holders in limited circumstances provided that such amendments do not materially adversely affect the interest of the warrant holders. We are not required to issue fractional shares upon the exercise of the warrants. No holder of the warrants will possess any rights as a shareholder under those warrants until the holder exercises those warrants. The warrants may be transferred independent of the common stock they are issued with, subject to all applicable laws. Registrar & Transfer Company will initially serve as the warrant agent.

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CAPITALIZATION

The following table summarizes our cash position and capitalization as of July 2, 2005 on an actual basis and as adjusted to reflect the sale of the 17,123,288 shares of common stock and warrants we are offering at the public offering price of $0.73 per share after deducting the estimated offering expenses we expect to pay. You should read this information in conjunction with our consolidated financial statements and the related notes beginning on page F-1 of our Annual Report on Form 10-K for the year ended December 31, 2004 filed with the SEC.

	July 2, 2005	
	Actual	**As Adjusted**
	(in thousands, except share and per share data)	
Cash and cash equivalents	$ 6,741	$ 18,041
Long term debt, including current portion	44	44
Stockholders equity:		
Preferred stock, $0.001 par value; 2,000,000 shares authorized; none issued		
Common stock, $0.001 par value, 250,000,000 shares authorized; 107,711,026 shares issued and outstanding, actual; 124,834,314 shares issued and outstanding, as adjusted	108	125
Additional paid-in capital	196,991	208,274
Notes receivable from stockholder	(820)	(820)
Accumulated deficit	(154,605)	(154,605)
Total capitalization	$ 41,718	$ 53,018

Amounts representing common stock outstanding on July 2, 2005 exclude the following:

3,424,658 shares of common stock issuable at an exercise price of $1.11 per share upon exercise of the warrants issued in this offering;

3,424,658 shares of common stock, and warrants to purchase 684,932 shares of common stock at $1.11 per share, both issuable upon exercise of the investors option to purchase additional offered securities for 90 business days;

11,942,015 shares of common stock issuable upon exercise of stock options at a weighted average exercise price of $4.21 per share, under our stock plans;

6,078,873 additional shares of common stock reserved for issuance under various outstanding warrant agreements, at a weighted average exercise price of $6.24 per share; and