

AMERICAN SUPERCONDUCTOR CORP /DE/
Form 10-Q
February 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: December 31, 2015

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: 0-19672

American Superconductor Corporation

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware (State or other jurisdiction of incorporation or organization) | 04-2959321 (I.R.S. Employer Identification No.) |
|---|---|

| | |
|--|---------------------|
| 64 Jackson Road, Devens, Massachusetts (Address of principal executive offices) | 01434 (Zip Code) |
|--|---------------------|

(978) 842-3000

(Registrant's telephone number, including area code)

N/A

Edgar Filing: AMERICAN SUPERCONDUCTOR CORP /DE/ - Form 10-Q

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

Shares outstanding of the Registrant's common stock:

| | |
|--|------------------------------------|
| Common Stock, par value \$0.01 per share | 14,042,359 |
| Class | Outstanding as of February 4, 2016 |

AMERICAN SUPERCONDUCTOR CORPORATION

INDEX

| | Page No. |
|--|----------|
| PART I—FINANCIAL INFORMATION | |
| Item 1. <u>Financial Statements</u> | 3 |
| Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 24 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 34 |
| Item 4. <u>Controls and Procedures</u> | 35 |
| PART II—OTHER INFORMATION | |
| Item 1. <u>Legal Proceedings</u> | 35 |
| Item 1A. <u>Risk Factors</u> | 37 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 37 |
| Item 3. <u>Defaults Upon Senior Securities</u> | 37 |
| Item 4. <u>Mine Safety Disclosure</u> | 37 |
| Item 5. <u>Other Information</u> | 37 |
| Item 6. <u>Exhibits</u> | 37 |
| <u>Signature</u> | 38 |

AMERICAN SUPERCONDUCTOR CORPORATION

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

| | December 31, 2015 | March 31, 2015 |
|---|-------------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$36,437 | \$20,490 |
| Accounts receivable, net | 17,052 | 9,879 |
| Inventory | 15,238 | 20,596 |
| Prepaid expenses and other current assets | 5,611 | 10,764 |
| Restricted cash | 433 | 2,822 |
| Total current assets | 74,771 | 64,551 |
| Property, plant and equipment, net | 51,204 | 56,097 |
| Intangibles, net | 996 | 1,422 |
| Restricted cash | 795 | 1,236 |
| Deferred tax assets | 7,766 | 7,766 |
| Other assets | 303 | 2,753 |
| Total assets | \$135,835 | \$133,825 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$20,723 | \$21,615 |
| Note payable, current portion, net of discount of \$83 as of December 31, 2015 and \$244 as of March 31, 2015 | 3,584 | 3,756 |
| Derivative liabilities | 2,590 | 2,999 |
| Deferred revenue | 10,676 | 11,019 |
| Deferred tax liabilities | 7,843 | 7,843 |
| Total current liabilities | 45,416 | 47,232 |
| Note payable, net of discount of \$161 as of December 31, 2015 and \$290 as of March 31, 2015 | 1,339 | 3,877 |
| Deferred revenue | 3,261 | 2,756 |
| Other liabilities | 790 | 67 |
| Total liabilities | 50,806 | 53,932 |
| Commitments and contingencies (Note 13) | | |

| | | |
|--|------------|------------|
| Stockholders' equity: | | |
| Common stock | 141 | 96 |
| Additional paid-in capital | 1,011,016 | 985,921 |
| Treasury stock, at cost | (881) | (771) |
| Accumulated other comprehensive loss | (425) | (308) |
| Accumulated deficit | (924,822) | (905,045) |
| Total stockholders' equity | 85,029 | 79,893 |
| Total liabilities and stockholders' equity | \$ 135,835 | \$ 133,825 |

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

AMERICAN SUPERCONDUCTOR CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

| | Three months ended December 31, | | Nine months ended December 31, | |
|--|---------------------------------------|------------|-----------------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues | \$25,772 | \$21,250 | \$68,499 | \$45,401 |
| Cost of revenues | 19,263 | 18,094 | 55,758 | 43,953 |
| Gross Profit | 6,509 | 3,156 | 12,741 | 1,448 |
| Operating expenses: | | | | |
| Research and development | 2,759 | 2,795 | 8,924 | 8,993 |
| Selling, general and administrative | 7,023 | 7,550 | 21,331 | 23,534 |
| Arbitration award expense | - | - | - | 10,188 |
| Restructuring and impairments | - | 507 | 779 | 5,416 |
| Amortization of acquisition related intangibles | 39 | 39 | 118 | 118 |
| Total operating expenses | 9,821 | 10,891 | 31,152 | 48,249 |
| Operating loss | (3,312) | (7,735) | (18,411) | (46,801) |
| Change in fair value of derivatives and warrants | (1,092) | 2,288 | 409 | 3,048 |
| Gain on sale of minority interest | 2,511 | - | 2,511 | - |
| Interest expense, net | (238) | (525) | (841) | (1,555) |
| Other (expense) income, net | (20) | (209) | (1,189) | 379 |
| Loss before income tax expense | (2,151) | (6,181) | (17,521) | (44,929) |
| Income tax expense | 806 | 172 | 2,256 | 363 |
| Net loss | \$(2,957) | \$(6,353) | \$(19,777) | \$(45,292) |
| Net loss per common share | | | | |
| Basic | \$(0.22) | \$(0.72) | \$(1.52) | \$(5.50) |
| Diluted | \$(0.22) | \$(0.72) | \$(1.52) | \$(5.50) |
| Weighted average number of common shares outstanding | | | | |
| Basic | 13,539 | 8,764 | 13,052 | 8,228 |
| Diluted | 13,539 | 8,764 | 13,052 | 8,228 |

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

AMERICAN SUPERCONDUCTOR CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(In thousands)

| | Three months ended December 31, | | Nine months ended December 31, | |
|--|---------------------------------------|-----------|-----------------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net loss | \$(2,957) | \$(6,353) | \$(19,777) | \$(45,292) |
| Other comprehensive loss, net of tax: | | | | |
| Foreign currency translation losses | (436) | (188) | (117) | (1,279) |
| Total other comprehensive loss, net of tax | (436) | (188) | (117) | (1,279) |
| Comprehensive loss | \$(3,393) | \$(6,541) | \$(19,894) | \$(46,571) |

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

AMERICAN SUPERCONDUCTOR CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

| | Nine months ended December 31, | |
|--|-----------------------------------|------------|
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net loss | \$(19,777) | \$(45,292) |
| Adjustments to reconcile net loss to net cash used in operations: | | |
| Depreciation and amortization | 6,050 | 7,298 |
| Stock-based compensation expense | 2,542 | 4,620 |
| Impairment of minority interest investment | 746 | 3,464 |
| Provision for excess and obsolete inventory | 1,835 | 1,401 |
| Write-off prepaid taxes | 289 | - |
| (Gain on sale)/loss from minority interest investment | (2,155) | 644 |
| Change in fair value of derivatives and warrants | (409) | (3,048) |
| Non-cash interest expense | 290 | 490 |
| Other non-cash items | 694 | (838) |
| Changes in operating asset and liability accounts: | | |
| Accounts receivable | (7,156) | (3,434) |
| Inventory | 3,288 | (7,598) |
| Prepaid expenses and other current assets | 5,800 | (3,072) |
| Accounts payable and accrued expenses | (34) | 5,694 |
| Accrued arbitration liability | - | 10,328 |
| Deferred revenue | 198 | 8,409 |
| Net cash used in operating activities | (7,799) | (20,934) |
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | (788) | (681) |
| Proceeds from the sale of property, plant and equipment | 30 | 20 |
| Change in restricted cash | 2,832 | 4,700 |
| Proceeds from sale of minority-interest | 2,511 | - |
| Change in other assets | 271 | 316 |
| Net cash provided by investing activities | 4,856 | 4,355 |
| Cash flows from financing activities: | | |
| Employee taxes paid related to net settlement of equity awards | (110) | (400) |
| Proceeds from the issuance of debt, net of expenses | - | 1,429 |
| Repayment of debt | (3,000) | (6,295) |
| Proceeds from ATM sales, net | - | 5,839 |
| Proceeds from public equity offering, net | 22,282 | 9,114 |
| Proceeds from exercise of employee stock options and ESPP | 30 | 60 |
| Net cash provided by financing activities | 19,202 | 9,747 |
| Effect of exchange rate changes on cash and cash equivalents | (312) | (299) |

| | | |
|--|----------|----------|
| Net increase/(decrease) in cash and cash equivalents | 15,947 | (7,131) |
| Cash and cash equivalents at beginning of year | 20,490 | 43,114 |
| Cash and cash equivalents at end of year | \$36,437 | \$35,983 |

Supplemental schedule of cash flow information:

| | | |
|--|---------|-------|
| Cash paid for income taxes, net of refunds | \$1,120 | \$362 |
| Issuance of common stock to settle liabilities | 286 | 1,623 |
| Cash paid for interest | 574 | 937 |

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of the Business and Operations and Liquidity

Nature of the Business and Operations

American Superconductor Corporation (“AMSC” or the “Company”) was founded on April 9, 1987. The Company is a leading provider of megawatt-scale solutions that lower the cost of wind power and enhance the performance of the power grid. In the wind power market, the Company enables manufacturers to field wind turbines through its advanced engineering, support services and power electronics products. In the power grid market, the Company enables electric utilities and renewable energy project developers to connect, transmit and distribute power through its transmission planning services and power electronics and superconductor-based products. The Company’s wind and power grid products and services provide exceptional reliability, security, efficiency and affordability to its customers.

These unaudited condensed consolidated financial statements of the Company have been prepared on a going concern basis in accordance with United States generally accepted accounting principles (“GAAP”) and the Securities and Exchange Commission’s (“SEC”) instructions to Form 10-Q. The going concern basis of presentation assumes that the Company will continue operations and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those instructions. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. The unaudited condensed consolidated financial statements, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim periods ended December 31, 2015 and 2014 and the financial position at December 31, 2015.

On March 24, 2015, the Company effected a 1-for-10 reverse stock split of its common stock. Trading of the Company’s common stock reflected the reverse stock split beginning on March 25, 2015. Unless otherwise indicated, all historical references to shares of common stock, shares of restricted stock, restricted stock units, shares underlying options, warrants or calculations that use common stock for per share financial reporting have been adjusted for comparative purposes to reflect the impact of the 1-for-10 reverse stock split as if it had occurred at the beginning of the earliest period presented.

Liquidity

The Company has experienced recurring operating losses and as of December 31, 2015, the Company had an accumulated deficit of \$924.8 million. In addition, the Company has experienced recurring negative operating cash flows. At December 31, 2015, the Company had cash and cash equivalents of \$36.4 million. Cash used in operations for the nine months ended December 31, 2015 was \$7.8 million.

From April 1, 2011 through the date of this filing, the Company has reduced its global workforce substantially. The Company has taken actions to consolidate certain business operations to reduce facility costs. As of December 31, 2015, the Company had a global workforce of 339 persons. The Company plans to closely monitor its expenses and, if required, expects to further reduce operating costs and capital spending to enhance liquidity.

Over the last several years, the Company has entered into several debt and equity financing arrangements in order to enhance liquidity. Since April 1, 2012, the Company has generated aggregate cash flows from financing activities of \$72.0 million. This amount includes proceeds from an April 2015 equity offering, which generated net proceeds of

approximately \$22.3 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company. See Note 10, "Debt", and Note 12 "Stockholders Equity" for further discussion of these financing arrangements. The Company believes that it is in compliance with the covenants and restrictions included in the agreements governing its debt arrangements as of December 31, 2015.

The Company believes it has sufficient liquidity to fund its operations, capital expenditures and scheduled cash payments under its debt obligations for the next twelve months. The Company's liquidity is highly dependent on its ability to increase revenues, its ability to control its operating costs, its ability to maintain compliance with the covenants and restrictions on its debt obligations (or obtain waivers from its lender in the event of non-compliance), and its ability to raise additional capital, if necessary. There can be no assurance that the Company will be able to continue to raise additional capital from other sources or execute on any other means of improving liquidity described above.

On October 6, 2015, 100% of the outstanding common stock of Blade Dynamics Limited (“Blade Dynamics”) was acquired by a subsidiary of General Electric Company. After deducting transaction expenses, the Company received net proceeds of \$2.5 million from the sale, which was recorded as a gain in the third fiscal quarter ended December 31, 2015. Additionally, under the terms of the purchase agreement, the Company may be entitled to receive up to an additional \$1.6 million in proceeds, upon the successful achievement of certain milestones by Blade Dynamics over the next three years. The Company had recorded a charge of \$3.5 million during the nine months ended December 31, 2014 to fully impair its investment in Blade Dynamics.

The Company no longer believes its investment in Tres Amigas, LLC, a Delaware limited liability company (“Tres Amigas”) is recoverable. The Company fully impaired its remaining investment, recording a charge of \$0.7 million during the nine months ended December 31, 2015. (See Note 14, “Minority Investments”, for further information about such investment).

2. Stock-Based Compensation

The Company accounts for its stock-based compensation at fair value. The following table summarizes stock-based compensation expense by financial statement line item for the three and nine months ended December 31, 2015 and 2014 (in thousands):

| | Three months ended December 31, | | Nine months ended December 31, | |
|-------------------------------------|---------------------------------------|----------------|--------------------------------------|----------------|
| | 2015 | 2014 | 2015 | 2014 |
| Cost of revenues | \$55 | \$186 | \$213 | \$533 |
| Research and development | 89 | 419 | 373 | 1,418 |
| Selling, general and administrative | 564 | 916 | 1,956 | 2,669 |
| Total | \$708 | \$1,521 | \$2,542 | \$4,620 |

During the nine months ended December 31, 2015, the Company granted 420,189 restricted stock awards. These awards generally vest over 3 years. During the nine months ended December 31, 2014, the Company granted 100,000 stock options and 324,300 restricted stock awards. The stock options vest over 5 years, and the restricted stock awards generally vest over three years. Awards for restricted stock include both time-based and performance-based awards. For options and awards that vest upon the passage of time, expense is being recorded over the vesting period. Performance-based awards are expensed over the requisite service period based on probability of achievement.

The estimated fair value of the Company’s stock-based awards, less expected annual forfeitures, is amortized over the awards’ service period. The total unrecognized compensation cost for unvested outstanding stock options was \$0.8 million at December 31, 2015. This expense will be recognized over a weighted average expense period of approximately 2.6 years. The total unrecognized compensation cost for unvested outstanding restricted stock was \$3.1 million at December 31, 2015. This expense will be recognized over a weighted-average expense period of approximately 2.0 years.

The weighted average assumptions used in the Black-Scholes valuation model for stock options granted during the three and nine months ended December 31, 2015 and 2014 are as follows:

| | Three months ended December 31, 2015 | | Nine months ended December 31, 2014 | |
|-------------------------|---|------|--|--------|
| Expected volatility | N/A | N/A | N/A | 85.5 % |
| Risk-free interest rate | N/A | N/A | N/A | 1.9 % |
| Expected life (years) | N/A | N/A | N/A | 5.8 |
| Dividend yield | None | None | None | None |

3. Computation of Net Loss per Common Share

Basic net loss per share (“EPS”) is computed by dividing net loss by the weighted-average number of common shares outstanding for the period. Where applicable, diluted EPS is computed by dividing the net loss by the weighted-average number of common shares and dilutive common equivalent shares outstanding during the period, calculated using the treasury stock method. Common equivalent shares include the effect of restricted stock, exercise of stock options and warrants and contingently issuable shares. For the each of the three and nine months ended December 31, 2015 and 2014, 1.6 million shares were not included in the calculation of diluted EPS as they were considered anti-dilutive, of which 0.4 million relate to outstanding stock options, and 1.2 million relate to outstanding warrants, respectively.

The following table reconciles the numerators and denominators of the earnings per share calculation for the three and nine months ended December 31, 2015 and 2014 (in thousands, except per share data):

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|---------------------------------------|-------------|-----------------------------------|--------------|
| | 2015 | 2014 | 2015 | 2014 |
| Numerator: | | | | |
| Net loss | \$ (2,957) | \$ (6,353) | \$ (19,777) | \$ (45,292) |
| Denominator: | | | | |
| Weighted-average shares of common stock outstanding | 14,010 | 9,105 | 13,181 | 8,326 |
| Weighted-average shares subject to repurchase | (471) | (341) | (129) | (98) |
| Shares used in per-share calculation basic | 13,539 | 8,764 | 13,052 | 8,228 |
| Shares used in per-share calculation diluted | 13,539 | 8,764 | 13,052 | 8,228 |
| Net loss per share basic | \$ (0.22) | \$ (0.72) | \$ (1.52) | \$ (5.50) |
| Net loss per share diluted | \$ (0.22) | \$ (0.72) | \$ (1.52) | \$ (5.50) |

4. Fair Value Measurements

A valuation hierarchy for disclosure of the inputs to valuation used to measure fair value has been established. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 - Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 - Unobservable inputs that reflect the Company's assumptions that market participants would use in pricing the asset or liability. The Company develops these inputs based on the best information available, including its own data.

The Company provides a gross presentation of activity within Level 3 measurement roll-forward and details of transfers in and out of Level 1 and 2 measurements. A change in the hierarchy of an investment from its current level is reflected in the period during which the pricing methodology of such investment changes. Disclosure of the transfer of securities from Level 1 to Level 2 or Level 3 is made in the event that the related security is significant to total cash and investments. The Company did not have any transfers of assets and liabilities from Level 1 and Level 2 to Level 3 of the fair value measurement hierarchy during the three and nine months ended December 31, 2015.

A financial asset's or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Edgar Filing: AMERICAN SUPERCONDUCTOR CORP /DE/ - Form 10-Q

The following table provides the assets and liabilities carried at fair value on a recurring basis, measured as of December 31, 2015 and March 31, 2015 (in thousands):

| | Total Carrying Value | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---------------------------|----------------------------|---|--|---|
| December 31, 2015: | | | | |
| Assets: | | | | |
| Cash equivalents | \$ 16,023 | \$ 16,023 | \$ - | \$ - |
| Derivative liabilities: | | | | |
| Warrants | \$ 2,590 | \$ - | \$ - | \$ 2,590 |
| March 31, 2015: | | | | |
| Assets: | | | | |
| Cash equivalents | \$ 12,519 | \$ 12,519 | \$ - | \$ - |
| Derivative liabilities: | | | | |
| Warrants | \$ 2,999 | \$ - | \$ - | \$ 2,999 |

The table below reflects the activity for the Company's major classes of liabilities measured at fair value on a recurring basis (in thousands):

| | Warrants |
|------------------------------|----------|
| April 1, 2015 | \$ 2,999 |
| Mark to market adjustment | (409) |
| Balance at December 31, 2015 | \$ 2,590 |

| | Warrants |
|--|----------|
| April 1, 2014 | \$ 2,601 |
| Warrant issuance with equity offering | 4,255 |
| Warrant issuance with senior secured term loan | 106 |
| Mark to market adjustment | (3,963) |
| Balance at March 31, 2015 | \$ 2,999 |

Valuation Techniques

Cash Equivalents

Cash equivalents consist of highly liquid instruments with maturities of three months or less that are regarded as high quality, low risk investments and are measured using such inputs as quoted prices, and are classified within Level 1 of the valuation hierarchy. Cash equivalents consist principally of certificates of deposits and money market accounts.

Warrants

Warrants were issued in conjunction with a Securities Purchase Agreement (the "Purchase Agreement") with Capital Ventures International ("CVI"), an equity offering to Hudson Bay Capital in November 2014, and a Loan and Security Agreement with Hercules Technology Growth Capital, Inc. ("Hercules"). (See Note 10, "Debt," and Note 11 "Warrants and Derivative Liabilities," for additional information.) These warrants are subject to revaluation at each balance sheet date, and any change in fair value will be recorded as a change in fair value in derivatives and warrants until the earlier of their exercise or expiration.

The Company relies on various assumptions in a lattice model to determine the fair value of warrants. The Company has valued the warrants within Level 3 of the valuation hierarchy. (See Note 11, "Warrants and Derivative Liabilities," for a discussion of the warrants and the valuation assumptions used.)

Minority Investment

The Company accounts for the minority investment in Tres Amigas on the equity basis (See Note 14, “Minority Investments”). During the three months ended June 30, 2015, the Company determined that as a result of delays in Tres Amigas securing financing for the project as well as the Company’s projected recovery of its investment based on recent adverse market indicators for potential sales of the Company’s share of the investment, that its investment in Tres Amigas was no longer recoverable and therefore recorded an impairment charge of \$0.7 million.

5. Accounts Receivable

Accounts receivable at December 31, 2015 and March 31, 2015 consisted of the following (in thousands):

| | December 31, 2015 | March 31, 2015 |
|---------------------------------------|-------------------------|-------------------|
| Accounts receivable (billed) | \$ 15,801 | \$ 8,946 |
| Accounts receivable (unbilled) | 1,305 | 987 |
| Less: Allowance for doubtful accounts | (54) | (54) |
| Accounts receivable, net | \$ 17,052 | \$ 9,879 |

6. Inventory

Inventory at December 31, 2015 and March 31, 2015 consisted of the following (in thousands):

| | December 31, 2015 | March 31, 2015 |
|------------------------|-------------------------|-------------------|
| Raw materials | \$ 10,025 | \$ 9,411 |
| Work-in-process | 1,318 | 2,117 |
| Finished goods | 2,293 | 7,487 |
| Deferred program costs | 1,602 | 1,581 |
| Net inventory | \$ 15,238 | \$ 20,596 |

The Company recorded inventory write-downs of \$1.0 million and \$0.1 million for each of the three months ended December 31, 2015 and 2014, respectively. The Company recorded inventory write-downs of \$1.8 million and \$1.4 million for each of the nine months ended December 31, 2015 and 2014, respectively. These write downs were based on evaluating its inventory on hand for excess quantities and obsolescence.

Deferred program costs as of December 31, 2015 and March 31, 2015 primarily represent costs incurred on programs accounted for under contract accounting where the Company needs to complete development milestones before revenue and costs will be recognized.

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at December 31, 2015 and March 31, 2015 consisted of the following (in thousands):

| | December 31, 2015 | March 31, 2015 |
|--------------------------------------|-------------------------|-------------------|
| Accounts payable | \$ 6,942 | \$ 7,062 |
| Accrued inventories in-transit | 1,241 | 1,127 |
| Accrued other miscellaneous expenses | 3,413 | 3,254 |
| Accrued compensation | 5,166 | 5,960 |
| Income taxes payable | 851 | 278 |
| Accrued warranty | 3,110 | 3,934 |
| Total | \$ 20,723 | \$ 21,615 |

The Company generally provides a one to three year warranty on its products, commencing upon installation. A provision is recorded upon revenue recognition to cost of revenues for estimated warranty expense based on historical experience.

Product warranty activity was as follows (in thousands):

| | Three months ended | | Nine months ended | |
|---|--------------------|---------|-------------------|---------|
| | December 31, | | December 31, | |
| | 2015 | 2014 | 2015 | 2014 |
| Balance at beginning of period | \$3,273 | \$3,367 | \$3,934 | \$3,207 |
| Change in accruals for warranties during the period | 595 | 1,309 | 1,018 | 2,212 |
| Settlements during the period | (758) | (561) | (1,842) | (1,304) |
| Balance at end of period | \$3,110 | \$4,115 | \$3,110 | \$4,115 |

8. Income Taxes

The Company recorded income tax expense of \$0.8 million and \$2.3 million for the three and nine months ended December 31, 2015, respectively. The Company recorded income tax expense of \$0.2 million and \$0.4 million for the three and nine months ended December 31, 2014, respectively. Income tax expense was primarily due to dividend withholding taxes and income taxes in the Company's foreign jurisdictions.

Accounting for income taxes requires a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if, based on the technical merits, it is more likely than not the position will be sustained upon audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company re-evaluates these uncertain tax positions on a quarterly basis. The evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit and new audit activity. Any changes in these factors could result in the recognition of a tax benefit or an additional charge to the tax provision. The Company identified an uncertain tax position in the nine months ended December 31, 2015 and had an unrecognized tax benefit in the amount of \$0.7 million. This amount, if recognized, would result in a reduction of the Company's effective tax rate.

Section 382 of the U.S. Internal Revenue Code of 1986, as amended (the "IRC"), provides limits on the extent to which a corporation that has undergone an ownership change (as defined) can utilize any net operating loss ("NOL") and general business tax credit carryforwards it may have. The Company conducted a study as a result of the April 2015 equity offering to determine whether Section 382 could limit the use of its carryforwards in this manner. After completing this study, the Company has concluded that the limitation will not have a material impact on its ability to utilize its net operating loss carryforwards. If there were material ownership changes subsequent to the study, the Company's ability to utilize its net operating loss carryforwards could be limited.

9. Restructuring

The Company accounts for charges resulting from operational restructuring actions in accordance with ASC Topic 420, Exit or Disposal Cost Obligations ("ASC 420") and ASC Topic 712, Compensation—Nonretirement Postemployment Benefits ("ASC 712"). In accounting for these obligations, the Company is required to make assumptions related to the amounts of employee severance, benefits, and related costs and the time period over which leased facilities will remain vacant, sublease terms, sublease rates and discount rates. Estimates and assumptions are based on the best information available at the time the obligation arises. These estimates are reviewed and revised as facts and circumstances dictate; changes in these estimates could have a material effect on the amount accrued on the consolidated balance sheet.

During the years ended March 31, 2015 and 2014, the Company undertook restructuring activities, approved by the Board of Directors, in order to reorganize its global operations, streamline various functions of the business, and reduce its global workforce to better reflect the demand for its products. During the year ended March 31, 2014, the Company undertook a plan to consolidate its Grid manufacturing activities into its Devens, Massachusetts facility and close its facility in Middleton, Wisconsin which was completed during the year ended March 31, 2015. In addition, the Company established a new Wind manufacturing facility in Romania and as a result, reduced the headcount in its operation in China. The Company is maintaining its headcount in China at a level necessary to support demand from its Chinese customers. The Company recorded restructuring charges for severance and other costs of approximately \$0.5 million and \$1.9 million during the three and nine months ended December 31, 2014, respectively, primarily associated with the consolidation of the Company's Grid manufacturing activities in the United States. From April 1, 2011 through December 31, 2015, the Company's various restructuring activities resulted in a substantial reduction of its global workforce. All amounts related to these restructuring activities have been paid as of December 31, 2015.

The following table presents restructuring charges and cash payments (in thousands):

| | Severance pay and benefits | Facility exit and Relocation costs | Total |
|--|-------------------------------------|---|----------|
| Nine months ended December 31, 2015 | | | |
| Accrued restructuring balance at April 1, 2015 | \$ 180 | \$ - | \$180 |
| Charges to operations | (5) | 38 | 33 |
| Cash payments | (175) | (38) | (213) |
| Accrued restructuring balance at December 31, 2015 | \$ - | \$ - | \$- |
| | | | |
| | Severance pay and benefits | Facility exit and Relocation costs | Total |
| Nine months ended December 31, 2014 | | | |
| Accrued restructuring balance at April 1, 2014 | \$ 844 | \$ - | \$844 |
| Charges to operations | 674 | 1,278 | 1,952 |
| Cash payments | (987) | (1,028) | (2,015) |
| Accrued restructuring balance at December 31, 2014 | \$ 531 | \$ 250 | \$781 |

All restructuring charges discussed above are included within restructuring and impairments in the Company's unaudited condensed consolidated statements of operations. The Company includes accrued restructuring within accounts payable and accrued expenses in the unaudited condensed consolidated balance sheets.

10. Debt

On June 5, 2012, the Company entered into the Loan and Security Agreement with Hercules (the "Term Loan"), under which the Company borrowed \$10.0 million. After closing fees and expenses, the net proceeds to the Company were \$9.7 million. The Term Loan bears an interest rate equal to 11% plus the percentage, if any, by which the prime rate as reported by The Wall Street Journal exceeds 3.75%. The Company made interest-only payments from July 1, 2012 through October 31, 2012, after which the Company began repaying the Term Loan in equal monthly installments ending on December 1, 2014, when the loan was repaid in full. In addition, Hercules received a warrant (the "First Warrant") to purchase 13,927 shares of common stock, exercisable at an initial strike price of \$35.90 per share, subject to adjustment, until December 5, 2017. Due to certain adjustment provisions within the warrant, it qualified for liability accounting and the fair value of \$0.4 million was recorded upon issuance, which the Company recorded as a debt discount and a warrant liability. The total debt discount including the First Warrant, end of term fee and legal and origination costs of \$1.2 million was amortized into interest expense over the term of the Term Loan using the effective interest method. Under this method, interest expense was recognized each period until the debt instrument reached maturity. During the three and nine months ended December 31, 2014, the Company recorded non-cash interest expense for amortization of the debt discount related to the Term Loan of less than \$0.1 million and \$0.1 million, respectively.

On November 15, 2013, the Company amended the Term Loan with Hercules and entered into a new term loan (the "New Term Loan B"), borrowing an additional \$10.0 million. After closing fees and expenses, the net proceeds to the Company for the New Term Loan B were \$9.8 million. The New Term Loan B bears the same interest rate as the Term Loan. The Company is repaying the New Term Loan B in equal monthly installments ending on November 1,

2016. The principal balance of the New Term Loan B is approximately \$3.7 million as of December 31, 2015. Hercules received a warrant (the "Second Warrant") to purchase 25,641 shares of common stock, exercisable at an initial strike price of \$19.50 per share, subject to adjustment, until May 15, 2019. In addition, the exercise price of the First Warrant was reduced to \$19.50 per share. (See Note 11, "Warrants and Derivative Liabilities," for a discussion on both warrants and the valuation assumptions used.) The Company will pay an end of term fee of \$0.5 million upon the earlier of maturity or prepayment of the New Term Loan B. The Company has accrued the end of term fee and recorded a corresponding amount into the debt discount. The New Term Loan B includes a mandatory prepayment feature which allows Hercules the right to use any of the Company's net proceeds from specified asset dispositions greater than \$1.0 million in a calendar year to pay off any outstanding accrued interest and principal balance on the New Term Loan B. The Company determined the fair value to be de-minimis for this feature. In addition, the Company incurred \$0.2 million of legal and origination costs in the three months ended December 31, 2013, which have been recorded as a debt discount. The total debt discount including the Second Warrant, end of term fee and legal and origination costs of \$1.0 million is being amortized into interest expense over the term of the New Term Loan B using the effective interest method. During the three and nine months ended December 31, 2015, the Company recorded non-cash interest expense for amortization of the debt discount related to the New Term Loan B of \$0.1 million and \$0.2 million, respectively. During the three and nine months ended December 31, 2014, the Company recorded non-cash interest expense for amortization of the debt discount related to the New Term Loan B of \$0.1 million and \$0.4 million, respectively.

On December 19, 2014, the Company entered into an amendment with Hercules (the “Hercules Second Amendment”) and entered into a new term loan (the “New Term Loan C”), borrowing an additional \$1.5 million. After closing fees and expenses, the net proceeds to the Company for the New Term Loan C were \$1.4 million. The Term Loan, New Term Loan B and New Term Loan C are collectively referred to as the “Term Loans”. The New Term Loan C also bears the same interest rate as the other Term Loans. The Company will make interest only payments until maturity on June 1, 2017, when the loan is scheduled to be repaid in its entirety. The maturity date of the New Term Loan C was extended from March 1, 2017 to June 1, 2017 due to the Company’s April 2015 equity offering which raised more than \$10 million in new capital before December 31, 2015. In conjunction with the Hercules Second Amendment, the First Warrant and Second Warrant were cancelled and replaced with the issuance of a new warrant (the “Warrant”) to purchase 58,823 shares of common stock at an exercise price of \$11.00 per share, subject to adjustment. The Warrant expires on June 30, 2020. (See Note 11, “Warrants and Derivative Liabilities”, for a discussion on the Warrant and the valuation assumptions used.) The Company will pay an end of term fee of approximately \$0.1 million upon earlier of maturity or prepayment of the New Term Loan C. The Company has accrued the end of term fee and recorded a corresponding amount in the debt discount. The New Term Loan C includes the same mandatory prepayment feature as the New Term Loan B. The Company determined the fair value to be de-minimus for this feature. In addition, the Company incurred approximately \$0.1 million of legal and origination costs in the three months ended December 31, 2014, which have been recorded as a debt discount. The total debt discount, including the Warrant, end of term fee and legal and origination costs of \$0.3 million is being amortized into interest expense over the term of the New Term Loan C using the effective interest method. During the three and nine months ended December 31, 2015, the Company recorded non-cash interest expense for amortization of the debt discount related to the New Term Loan C of less than \$0.1 million and \$0.1 million, respectively. During each of the three and nine months ended December 31, 2014, the Company recorded non-cash interest expense for amortization of the debt discount related to the New Term Loan C of less than \$0.1 million. If the maturity of any of the Term Loans is accelerated because of prepayment, then the amortization will be accelerated.

The Term Loans are secured by substantially all of the Company’s existing and future assets, including a mortgage on real property owned by the Company’s wholly-owned subsidiary, ASC Devens LLC, and located at 64 Jackson Road, Devens, Massachusetts. The Term Loans contain certain covenants that restrict the Company’s ability to, among other things, incur or assume certain debt, merge or consolidate, materially change the nature of the Company’s business, make certain investments, acquire or dispose of certain assets, make guarantees or grant liens on its assets, make certain loans, advances or investments, declare dividends or make distributions or enter into transactions with affiliates. In addition, there is a covenant that requires the Company to maintain a minimum unrestricted cash balance (the “Minimum Threshold”) in the United States. As part of the Hercules Second Amendment, this Minimum Threshold was amended to be the lower of \$5.0 million or the aggregate outstanding principal balance of the Term Loans. As a result of the Company’s April 2015 equity offering, the Minimum Threshold was reduced to the lesser of \$2.0 million or the aggregate outstanding principal balance of the Term Loans. As of December 31, 2015, the Minimum Threshold was \$2.0 million. The events of default under the Term Loans include, but are not limited to, failure to pay amounts due, breaches of covenants, bankruptcy events, cross defaults under other material indebtedness and the occurrence of a material adverse effect and/or change in control. In the case of a continuing event of default, Hercules may, among other remedies, declare due all unpaid principal amounts outstanding and any accrued but unpaid interest and foreclose on all collateral granted to Hercules as security under the Term Loans.

Although the Company believes that it is in compliance with the covenants and restrictions under the Term Loans as of December 31, 2015, there can be no assurance that the Company will continue to be in compliance.

Interest expense on the Term Loans for the three and nine months ended December 31, 2015 was \$0.2 million, and \$0.8 million, respectively, which included \$0.1 million and \$0.3 million, respectively, of non-cash interest expense related to the amortization of the debt discount on the Term Loans. Interest expense on the Term Loans for the three and nine months ended December 31, 2014, was \$0.4 million, and \$1.4 million, respectively, which included \$0.1 million and \$0.5 million, respectively, of non-cash interest expense related to the amortization of the debt discount on the Term Loans.

11. Warrants and Derivative Liabilities

Senior Convertible Note Warrant

On April 4, 2012, the Company entered into the Purchase Agreement with CVI. The Purchase Agreement included a warrant (the “Original Warrant”) to purchase 309,406 shares of the Company’s common stock. The Original Warrant is exercisable at any time on or after the date that is six months after the issuance of the Original Warrant and entitles CVI to purchase shares of the Company’s common stock for a period of five years from the initial date the original warrant becomes exercisable at an initial exercise price equal to \$54.50 per share, subject to certain price-based and other anti-dilution adjustments. On October 9, 2013, the Company amended the Purchase Agreement with CVI (the “Amendment”). Pursuant to the Amendment, the Company exchanged the Original Warrant for a new warrant (the “Exchanged Warrant”), with a reduced exercise price of \$26.10 per share of common stock. Other than the reduced exercise price, the Exchanged Warrant has the same terms and conditions as the Original Warrant. As a result of the sales of common stock under an At Market Sales Arrangement (“ATM”) and the 909,090 units, each consisting of one share of common stock and 0.90 of a warrant to purchase one share of common stock, sold to Hudson Bay Capital during the three months ended December 31, 2014, the exercise price of the Exchanged Warrant was further reduced to \$22.10 per share. As a result of the April 2015 equity offering (See Note 12, “Stockholders Equity”), the exercise price of the Exchanged Warrant was further reduced to \$15.94 per share. The Exchanged Warrant may not be exercised if, after giving effect to the conversion, CVI together with its affiliates, would beneficially own in excess of 4.99% of the Company’s common stock. This percentage may be raised to any other percentage not in excess of 9.99% at the option of CVI, upon at least 61-days prior notice to the Company, or lowered to any other percentage, at the option of CVI, at any time.

The Company calculated the fair value of the Exchanged Warrant, (See Note 4, “Fair Value Measurements” for further discussion), utilizing an integrated lattice model. The lattice model is an option pricing model that involves the construction of a binomial tree to show the different paths that the underlying asset may take over the option’s life. A lattice model can take into account expected changes in various parameters such as volatility over the life of the options, providing more accurate estimates of option prices than the Black-Scholes model.

The Company accounts for the Exchanged Warrant as a liability due to certain adjustment provisions within the warrant, which requires that it be recorded at fair value. The Exchanged Warrant is subject to revaluation at each balance sheet date and any change in fair value is recorded as a change in fair value of derivatives and warrants until the earlier of its expiration or its exercise at which time the warrant liability will be reclassified to equity.

Following is a summary of the key assumptions used to calculate the fair value of the Exchanged Warrant:

| | December 31, 2015 | September 30, 2015 | June 30, 2015 |
|--------------------------------|-------------------------|--------------------------|------------------|
| Fiscal Year 15 | | | |
| Risk-free interest rate | 0.96 % | 0.64 % | 0.74 % |
| Expected annual dividend yield | — % | — % | — % |
| Expected volatility | 76.68 % | 73.39 % | 71.61 % |
| Term (years) | 1.76 | 2.01 | 2.26 |
| Fair value | \$0.3 million | \$0.1 million | \$0.2 million |

| | March 31, 2015 | December 31, 2014 | September 30, 2014 | June 30, 2014 | March 31, 2014 |
|----------------|----------------------|-------------------------|--------------------------|---------------------|----------------------|
| Fiscal Year 14 | | | | | |

Edgar Filing: AMERICAN SUPERCONDUCTOR CORP /DE/ - Form 10-Q

| | | | | | | | | | | |
|--------------------------------|---------|---|---------|---|---------|---|---------|---|---------|---|
| Risk-free interest rate | 0.73 | % | 1.00 | % | 1.07 | % | 0.98 | % | 1.11 | % |
| Expected annual dividend yield | — | % | — | % | — | % | — | % | — | % |
| Expected volatility | 70.42 | % | 72.38 | % | 76.20 | % | 83.50 | % | 80.99 | % |
| Term (years) | 2.51 | | 2.76 | | 3.01 | | 3.26 | | 3.51 | |
| Fair value | \$0.3 | | \$0.5 | | \$1.5 | | \$2.3 | | \$2.2 | |
| | million | | million | | million | | million | | million | |

The Company recorded a net loss, resulting from an increase in the fair value of the Exchanged Warrant, of \$0.2 million during the three months ended December 31, 2015, and a net gain, resulting from a decrease in the fair value of the Exchanged Warrant, of less than \$0.1 million to change in fair value of derivatives and warrants during the nine months ended December 31, 2015. The Company recorded net gains resulting from decreases in the fair value of the Exchanged Warrant of \$1.0 million and \$1.7 million to the change in fair value of derivatives and warrants during the three and nine months ended December 31, 2014, respectively.

Senior Secured Term Loan - New Warrant

On December 19, 2014, the Company entered into the Hercules Second Amendment and entered into the New Term Loan C. (See Note 10, “Debt” for additional information regarding the New Term Loan C). In conjunction with the agreement, the Company issued the Warrant to purchase 58,823 shares of the Company’s common stock. The Warrant is exercisable at any time after its issuance at an initial exercise price of \$11.00 per share, subject to certain price-based and other anti-dilution adjustments, and expires on June 30, 2020. As a result of the equity offering on April 29, 2015, (See Note 12, “Stockholders Equity”) the exercise price of the Warrant was reduced to \$9.41 per share.

The Company accounts for the Warrant as a liability due to certain provisions within the Warrant. The Warrant is subject to revaluation at each balance sheet date and any change in fair value is recorded as a change in fair value of derivatives and warrants until the earlier of its expiration or its exercise, at which time the warrant liability will be reclassified to equity.

Following is a summary of the key assumptions used to calculate the fair value of the Warrant:

| | December 31, 2015 | September 30, 2015 | June 30, 2015 |
|--------------------------------|-------------------------|--------------------------|--|
| Fiscal Year 15 | | | |
| Risk-free interest rate | 1.65 % | 1.31 % | 1.63 % |
| Expected annual dividend yield | — % | — % | — % |
| Expected volatility | 73.57 % | 75.32 % | 72.57 % |
| Term (years) | 4.50 | 4.75 | 5.00 |
| Fair value | \$0.2 million | \$0.1 million | \$0.2 million |
| | | | New Issuance December 19, 2014 |
| Fiscal Year 14 | March 31, 2015 | December 31, 2014 | |
| Risk-free interest rate | 1.41 % | 1.73 % | 1.74 % |
| Expected annual dividend yield | — % | — % | — % |
| Expected volatility | 74.60 % | 77.43 % | 70.26 % |
| Term (years) | 5.25 | 5.50 | 5.53 |
| Fair value | \$0.2 million | \$0.2 million | \$0.2 million |

The Company recorded a net loss, resulting from an increase in the fair value of the Warrant, of \$0.1 million during the three months ended December 31, 2015 and a net gain, resulting from a decrease in the fair value of the Warrant of less than \$0.1 million during the nine months ended December 31, 2015 to change in fair value of derivatives and warrants. The Company recorded no change in the fair value of the Warrant in the three and nine months ended December 31, 2014.

November 2014 Warrant

On November 13, 2014, the Company completed an offering of approximately 909,090 units of the Company’s common stock with Hudson Bay Capital. (See Note 12, “Stockholder’s Equity”, for further information). Each unit consisted of one share of the Company’s common stock and 0.9 of a warrant to purchase one share of common stock, or a warrant to purchase in the aggregate 818,181 shares (the “November 2014 Warrant”). The November 2014 Warrant

is exercisable at any time, at an initial exercise price equal to \$11.00 per share, subject to certain price-based and other anti-dilution adjustments, and expires on November 13, 2019. As a result of the April 2015 equity offering, the exercise price of the November 2014 Warrant was reduced to \$9.41 per share.

The Company accounts for the November 2014 Warrant as a liability due to certain provisions within the warrant. The November 2014 Warrant is subject to revaluation at each balance sheet date and any change in fair value is recorded as a change in fair value of derivatives and warrants until the earlier of its expiration or its exercise, at which time the warrant liability will be reclassified to equity.

Following is a summary of the key assumptions used to calculate the fair value of the November 2014 Warrant:

16

| | December 31, 2015 | September 30, 2015 | June 30, 2015 | | |
|--------------------------------|-------------------------|--------------------------|------------------|-----------------|---|
| Fiscal Year 15 | | | | | |
| Risk-free interest rate | 1.51 | % 1.17 | % 1.44 | % | % |
| Expected annual dividend yield | — | % — | % — | % | % |
| Expected volatility | 70.02 | % 73.02 | % 74.18 | % | % |
| Term (years) | 3.87 | 4.12 | 4.37 | | |
| Fair value | \$2.1 | \$1.3 | \$1.8 | | |
| | million | million | million | | |
| | | | | New Issuance | |
| | March | December | November | | |
| Fiscal Year 14 | 31, 2015 | 31, 2014 | 13, 2014 | | |
| Risk-free interest rate | 1.28 | % 1.61 | % 1.64 | % | % |
| Expected annual dividend yield | — | % — | % — | % | % |
| Expected volatility | 75.96 | % 78.00 | % 72.86 | % | % |
| Term (years) | 4.62 | 4.87 | 5.00 | | |
| Fair value | \$2.5 | \$3.2 | \$4.3 | | |
| | million | million | million | | |

The Company recorded a net loss, resulting from an increase in the fair value of the November 2014 Warrant, of \$0.8 million in the three months ended December 31, 2015, and a net gain, resulting from a decrease in the fair value of the November 2014 Warrant, of \$0.4 million to change in fair value of derivatives and warrants during the nine months ended December 31, 2015. The Company recorded a gain, resulting from the decrease in the fair value of the November 2014 Warrant, of \$1.1 million in each of the three and nine months ended December 31, 2014.

The Company prepared its estimates for the assumptions used to determine the fair value of the warrants issued in conjunction with both the Exchanged Note and the Term Loans, as well as the November 2014 Warrant utilizing the respective terms of the warrants with similar inputs, as described above.

12. Stockholders' Equity

On April 29, 2015, the Company completed an equity offering with Cowen and Company, LLC, under which the Company sold 4.0 million shares of its common stock at an offering price of \$6.00 per share. After underwriting, commissions and expenses, the Company received net proceeds from the offering of approximately \$22.3 million.

13. Commitments and Contingencies

Legal Contingencies

From time to time, the Company is involved in legal and administrative proceedings and claims of various types. The Company records a liability in its consolidated financial statements for these matters when a loss is known or

considered probable and the amount can be reasonably estimated. The Company reviews these estimates each accounting period as additional information is known and adjusts the loss provision when appropriate. If a matter is both probable to result in a liability and the amounts of loss can be reasonably estimated, the Company estimates and discloses the possible loss or range of loss to the extent necessary to make the consolidated financial statements not misleading. If the loss is not probable or cannot be reasonably estimated, a liability is not recorded in its consolidated financial statements.

Ghodawat Energy Pvt Ltd (“Ghodawat”), a company registered in India carrying on the business of wind power development, lodged a Request for Arbitration with the ICC Court on May 12, 2011 and named the Company’s wholly-owned Austrian subsidiary, AMSC Austria GmbH (“AMSC Austria”) as the Respondent. Under the Request for Arbitration, Ghodawat alleged that AMSC Austria breached an agreement dated March 19, 2008 pursuant to which AMSC Austria granted a license to Ghodawat to manufacture, use, sell, market, erect, commission and maintain certain wind turbines using its technical information and wind turbine design (the “License Agreement”). Under the Request for Arbitration, Ghodawat’s claims in this arbitration amounted to approximately €18 million (\$24 million). AMSC Austria submitted counterclaims under the License Agreement against Ghodawat in the amount of approximately €6 million (\$8 million). On August 29, 2014, the ICC Court ruled that AMSC Austria was liable for damages and awarded Ghodawat approximately €8.3 million, which includes reimbursement of legal costs and associated expenses. Interest on this amount accrued at a rate of 5.33% from the date of award until settlement. The Company had recorded a loss contingency of \$0.5 million based on its assessment of probable losses on this claim in a prior period. As a result of the arbitration award liability, the Company recorded a charge of \$10.2 million during the three months ended September 30, 2014.

On February 4, 2015, AMSC Austria entered into a Settlement Agreement with Ghodawat, which provided for, among other things, (i) a payment by AMSC Austria to Ghodawat of €7.45 million, and (ii) upon payment by AMSC Austria to Ghodawat, the full settlement of any and all disputes and claims between the parties (including their respective parent and affiliated companies), in particular relating to or arising out of the award. The Company paid the settlement amount during the fourth quarter of fiscal 2014. As a result of this agreement, the Company reversed a portion of the accrued arbitration liability and recorded a gain of approximately \$1.2 million in the fourth quarter of fiscal 2014. The Company’s insurer, Catlin Specialty Insurance Company (“Catlin”) sought and received a ruling from the Massachusetts Superior Court that coverage does not apply to the arbitration award liability. On January 14, 2015, the Company and AMSC Austria entered into a Settlement Agreement and Release with Catlin, which provided for, among other things, (i) the Company’s and AMSC Austria’s release of all claims against Catlin relating to the arbitration award liability and (ii) Catlin’s release of all claims against the Company and AMSC Austria relating to approximately \$2.3 million reimbursed to date under the insurance policy for expenses incurred in connection with the arbitration proceedings. As a result of the settlement with Catlin, in the fourth quarter of fiscal 2014, the Company reversed an accrual of approximately \$2.2 million for expenses previously reimbursed by Catlin under the policy.

On September 13, 2011, the Company commenced a series of legal actions in China against Sinovel Wind Group Co. Ltd. (“Sinovel”). The Company’s Chinese subsidiary, Suzhou AMSC Superconductor Co. Ltd., filed a claim for arbitration with the Beijing Arbitration Commission in accordance with the terms of the Company’s supply contracts with Sinovel. The case is captioned (2011) Jing Zhong An Zi No. 0963. On March 31, 2011, Sinovel refused to accept contracted shipments of 1.5 megawatt, (“MW”) and 3 MW wind turbine core electrical components and spare parts that the Company was prepared to deliver. The Company alleges that these actions constitute material breaches of its contracts because Sinovel did not give it notice that it intended to delay deliveries as required under the contracts. Moreover, the Company alleges that Sinovel has refused to pay past due amounts for prior shipments of core electrical components and spare parts. The Company is seeking compensation for past product shipments and retention (including interest) in the amount of approximately RMB 485 million (\$76 million) due to Sinovel’s breaches of its contracts. The Company is also seeking specific performance of its existing contracts as well as reimbursement of all costs and reasonable expenses with respect to the arbitration. The value of the undelivered components under the existing contracts, including the deliveries refused by Sinovel in March 2011, amounts to approximately RMB 4.6 billion (\$720 million).

On October 8, 2011, Sinovel filed with the Beijing Arbitration Commission an application under the caption (2011) Jing Zhong An Zi No. 0963, for a counterclaim against the Company for breach of the same contracts under which the Company filed its original arbitration claim. Sinovel claimed, among other things, that the goods supplied by the Company do not conform to the standards specified in the contracts and claimed damages in the amount of approximately RMB 370 million (\$58 million). On October 17, 2011, Sinovel filed with the Beijing Arbitration Commission a request for change of counterclaim to increase its damage claim to approximately RMB 1 billion (\$157

million). On December 22, 2011, Sinovel filed with the Beijing Arbitration Commission an additional request for change of counterclaim to increase its damages claim to approximately RMB 1.2 billion (\$190 million). On February 27, 2012, Sinovel filed with the Beijing Arbitration Commission an application under the caption (2012) Jing Zhong An Zi No. 0157, against the Company for breach of the same contracts under which the Company filed its original arbitration claim. Sinovel claimed, among other things, that the goods supplied by the Company do not conform to the standards specified in the contracts and claimed damages in the amount of approximately RMB 105 million (\$17 million). The Company believes that Sinovel's claims are without merit and it intends to defend these actions vigorously. Since the proceedings in this matter are still in the early technical review phase, the Company cannot reasonably estimate possible losses or range of losses at this time.

The Company also submitted a civil action application to the Beijing No. 1 Intermediate People's Court under the caption (2011) Yi Zhong Min Chu Zi No. 15524, against Sinovel for software copyright infringement on September 13, 2011. The application alleges Sinovel's unauthorized use of portions of the Company's wind turbine control software source code developed for Sinovel's 1.5MW wind turbines and the binary code, or upper layer, of the Company's software for the PM3000 power converters in 1.5MW wind turbines. In July 2011, a former employee of the Company's Austrian subsidiary was arrested in Austria on charges of economic espionage and fraudulent manipulation of data. In September 2011, the former employee pled guilty to the charges, and was imprisoned. As a result of the Company's internal investigation and a criminal investigation conducted by Austrian authorities, the Company believes that this former employee was contracted by Sinovel through an intermediary while employed by the Company and improperly obtained and transferred to Sinovel portions of its wind turbine control software source code developed for Sinovel's 1.5MW wind turbines. Moreover, the Company believes the former employee illegally used source code to develop for Sinovel a software modification to circumvent the encryption and remove technical protection measures on the Company's PM3000 power converters in 1.5MW wind turbines in the field. The Company is seeking a cease and desist order with respect to the unauthorized copying, installation and use of its software, monetary damages of approximately RMB 38 million (\$6 million) for its economic losses and reimbursement of all costs and reasonable expenses. The Beijing No. 1 Intermediate People's Court accepted the case, which was necessary in order for the case to proceed. In November 2011, Sinovel filed a motion to remove this case from the Beijing No. 1 Intermediate People's Court and transfer the matter to the Beijing Arbitration Commission. On February 14, 2012, the court denied Sinovel's motion to remove the case. On February 21, 2012, Sinovel filed an appeal of the Beijing No. 1 Intermediate People's Court decision to the Beijing Higher People's Court. On April 25, 2012, the Beijing Higher People's Court issued a final Civil Ruling which supports the Beijing No.1 Intermediate People's Court's civil ruling and rejected Sinovel's appeal. Sinovel filed an appeal of the Beijing Higher People's Court's decision with China's Supreme People's Court. A hearing regarding this appeal was held at the Chinese Supreme People's Court on October 26, 2012. On November 23, 2012, China's Supreme People's Court issued a Civil Ruling, holding that (1) it will conduct a re-trial of Sinovel's appeal, and (2) the lower court's decision will be stayed pending the re-trial. China's Supreme People's Court conducted a re-trial of Sinovel's appeal on May 29, 2013. On January 26, 2014, the Supreme People's Court ruled to uphold the Beijing Higher People's Court ruling that the dispute shall be heard by the court. On September 15, 2014, the Beijing No. 1 Intermediate People's Court held its first substantive hearing in the Beijing case. At the hearing, the parties presented evidence, reviewed claims, and answered questions from the court. On April 24, 2015, the Company received notification from the Beijing No. 1 Intermediate People's Court that it dismissed the case for what it cited was a lack of evidence. On May 6, 2015, the Company filed an appeal of the Beijing No. 1 Intermediate People's Court decision to dismiss the case with the Beijing Higher People's Court. On September 8, 2015, the Beijing Higher People's Court held its first substantive hearing on the Company's appeal of the Beijing No. 1 Intermediate People's Court's dismissal of the case. At the hearing, the parties presented evidence and answered questions from the court. The Company is awaiting a decision from the Beijing Higher People's Court.

The Company submitted a civil action application to the Beijing Higher People's Court against Sinovel and certain of its employees for trade secret infringement on September 13, 2011 under the caption (2011) Gao Min Chu Zi No. 4193. The application alleges the defendants' unauthorized use of portions of the Company's wind turbine control software source code developed for Sinovel's 1.5MW wind turbines as described above with respect to the Copyright Action. The Company is seeking monetary damages of RMB 2.9 billion (\$453 million) for the trade secret infringement as well as reimbursement of all costs and reasonable expenses. The Beijing Higher People's Court accepted the case, which was necessary in order for the case to proceed. On December 22, 2011, the Beijing Higher People's Court transferred this case to the Beijing No. 1 Intermediate People's Court under the caption (2011) Gao Min Chu Zi No. 4193. On June 7, 2012, the Company received an Acceptance Notice from the Beijing No.1 Intermediate People's Court under the caption (2012) Yi Zhong Min Chu Zi No.6833. In August 2012, Sinovel filed a motion to remove this case from the Beijing No. 1 Intermediate People's Court and transfer the matter to the Beijing Arbitration Commission. On February 24, 2014, the Beijing No. 1 Intermediate People's Court denied Sinovel's motion to remove and transfer the case. On March 13, 2014, Sinovel filed an appeal of the Beijing No. 1 Intermediate People's Court decision to the Beijing Higher People's Court. On August 7, 2014, the Beijing Higher People's Court upheld the Beijing No.1 Intermediate Court's decision and rejected Sinovel's appeal regarding the jurisdiction opposition. The

Beijing No. 1 Intermediate Court held its first substantive hearing on May 11, 2015. On June 15, 2015, the Company submitted a request for the withdrawal of its complaint to the Beijing No. 1 Intermediate Court. On June 16, 2015, the Beijing No. 1 Intermediate Court granted its request. The Company immediately filed a civil action application to the Beijing Intellectual Property Court against the same parties and seeking the same amount of monetary damages for trade secret infringement on June 16, 2015 under the caption (2015) Jin Zhi Min Chu Zi No. 1135. On January 18, 2016, the Beijing Intellectual Property Court held its first substantive hearing on the Company's trade secret infringement case. At the hearing, the parties presented evidence, reviewed claims and answered questions from the court. The Company is awaiting a decision from the Beijing Intellectual Property Court.

On September 16, 2011, the Company filed a civil copyright infringement complaint in the Hainan Province No. 1 Intermediate People's Court against Dalian Guotong Electric Co. Ltd. ("Guotong"), a supplier of power converter products to Sinovel, and Huaneng Hainan Power, Inc. ("Huaneng"), a wind farm operator that has purchased Sinovel wind turbines containing Guotong power converter products. The case is captioned (2011) Hainan Yi Zhong Min Chu Zi No. 62. The application alleges that the Company's PM1000 converters in certain Sinovel wind turbines have been replaced by converters produced by Guotong. Because the Guotong converters are being used in wind turbines containing the Company's wind turbine control software, the Company believes that its copyrighted software is being infringed. The Company is seeking a cease and desist order with respect to the unauthorized use of its software, monetary damages of RMB 1.2 million (\$0.2 million) for its economic losses (with respect to Guotong only) and reimbursement of all costs and reasonable expenses. The court has accepted the case, which was necessary in order for the case to proceed. In addition, upon the request of the defendant Huaneng, Sinovel has been added by the court to this case as a defendant and Huaneng has been released from this case. In December 2011, Sinovel filed a jurisdiction opposition motion requesting dismissal by the Hainan Province No. 1 Intermediate People's Court, saying the case should be governed by the Beijing Arbitration Commission. On February 3, 2012, the Company received the Civil Ruling from the court, which granted Sinovel's motion, and dismissed the entire case. The Company appealed the court's ruling to the Hainan Higher Court, which on April 5, 2012 upheld the decision of the Hainan Province No. 1 Intermediate People's Court. On April 9, 2012, the Company filed an appeal of the Hainan Higher Court's decision with China's Supreme People's Court. China's Supreme People's Court accepted the appeal on May 23, 2012. The case is captioned, (2012) Min Shen Zi No. 630. On December 20, 2012, China's Supreme People's Court issued a Civil ruling, holding that (1) it will conduct a re-trial of the Company's appeal and (2) the lower court's decision will be stayed pending the re-trial. China's Supreme People's Court conducted a re-trial of Sinovel's appeal on May 29, 2013. On January 26, 2014, the Supreme People's Court revoked Hainan No. 1 Intermediate People's Court and Hainan Higher People's Court rulings and ruled that the case shall be heard by the Hainan No. 1 Intermediate People's Court. The Hainan No. 1 Intermediate People's Court accepted the case under the caption (2014) Hainan Yi Zhong Min San Chu Zi No. 1. On October 21, 2014, the Hainan No. 1 Intermediate People's Court changed the caption of this case to (2014) Hainan Yi Zhong Zhi Min Chu Zi No. 2. On November 18, 2014, the Hainan No. 1 Intermediate People's Court held its first substantive hearing in the Hainan case. At the hearing, the parties presented evidence, reviewed claims, and answered questions from the court. On June 3, 2015, the Company received notification from the Hainan No. 1 Intermediate People's Court that it dismissed the case for what it cited was a lack of evidence. On June 18, 2015, the Company filed an appeal of the Hainan No. 1 Intermediate People's Court decision to dismiss the case with the Hainan Higher People's Court. On August 20, 2015, the Hainan Higher People's Court accepted the appeal under the caption (2015) QiongZhi Min Zhong Zi No. 6. On November 26, 2015, the Hainan Higher People's Court held its first substantive hearing on the Company's appeal of the Hainan No. 1 Intermediate People's Court dismissal of the case. At the hearing, the parties presented evidence and answered questions from the court. The Company is awaiting a decision from the Hainan Higher People's Court.

Other

The Company enters into long-term construction contracts with customers that require the Company to obtain performance bonds. The Company is required to deposit an amount equivalent to some or all the face amount of the performance bonds into an escrow account until the termination of the bond. When the performance conditions are met, amounts deposited as collateral for the performance bonds are returned to the Company. In addition, the Company has various contractual arrangements in which minimum quantities of goods or services have been committed to be purchased on an annual basis.

As of December 31, 2015, the Company had \$0.4 million of restricted cash included in current assets and \$0.8 million of restricted cash included in long-term assets. These amounts included in restricted cash primarily represent deposits to secure letters of credit for various supply contracts. These deposits are held in interest bearing accounts.

14. Minority Investments

Investment in Tres Amigas LLC

The Company made an investment in Tres Amigas, focused on providing the first common interconnection of America's three power grids to help the country achieve its renewable energy goals and facilitate the smooth, reliable and efficient transfer of green power from region to region. The Company's original investment in Tres Amigas was \$5.4 million. As of December 31, 2015, the Company holds a 26% ownership interest in Tres Amigas.

20

The Company has determined that Tres Amigas is a variable interest entity (“VIE”) and that the Company is not the primary beneficiary of the VIE. Therefore, the Company has not consolidated Tres Amigas as of December 31, 2015. The investment was carried at acquisition cost, plus the Company’s equity in undistributed earnings or losses. The Company’s maximum exposure to loss was limited to the Company’s recorded investment in this VIE. The Company’s investment in Tres Amigas was included in other assets on the consolidated balance sheet and the equity in undistributed losses of Tres Amigas is included in other expense, net, on the unaudited condensed consolidated statements of operations. During the three months ended June 30, 2015, the Company determined that as a result of delays in Tres Amigas securing financing for the project, as well as the Company’s expectation that its investment would not be recoverable based on recent adverse market indicators for potential sales of the Company’s share of the investment, that its investment in Tres Amigas required further analysis for other-than-temporary impairment. The Company recorded an impairment charge of \$0.7 million to fully impair this investment in the three months ended June 30, 2015.

The net investment activity for the nine months ended December 31, 2015 is as follows (in thousands):

| | |
|---------------------------------|----------|
| Balance at April 1, 2015 | \$ 1,102 |
| Minority interest in net losses | (356) |
| Impairment | (746) |
| Balance at December 31, 2015 | \$- |

Investment in Blade Dynamics Ltd.

The Company acquired (through its Austrian subsidiary), a minority ownership position in Blade Dynamics, a designer and manufacturer of advanced wind turbine blades based on proprietary materials and structural technologies. The Company’s original investment was for \$8.0 million in cash.

The investment was carried at the acquisition cost, plus the Company’s equity in undistributed earnings or losses, through December 1, 2012, the date which the company no longer reported undistributed earnings or losses. The Company’s investment in Blade Dynamics was included in other assets on the unaudited condensed consolidated balance sheet and the equity in undistributed losses of Blade Dynamics was included in other expense, net, on the unaudited condensed consolidated statements of operations. During the nine months ended December 31, 2014, the Company impaired its remaining investment in Blade Dynamics and recorded an impairment charge of \$3.5 million.

On October 6, 2015, 100% of the outstanding common stock of Blade Dynamics was acquired by a subsidiary of General Electric Company. After deducting transaction expenses, AMSC received net proceeds of \$2.5 million from the sale, which was recorded as a gain during the three months ended December 31, 2015. Additionally, under the terms of the purchase agreement, AMSC may be entitled to receive up to an additional \$1.6 million in proceeds upon the successful achievement of certain milestones by Blade Dynamics over the next three years.

15. Business Segments

The Company reports its financial results in two reportable business segments: Wind and Grid.

Through the Company’s Windtec Solutions, the Wind business segment enables manufacturers to field wind turbines with exceptional power output, reliability and affordability. The Company supplies advanced power electronics and control systems, licenses its highly engineered wind turbine designs, and provides extensive customer support services

to wind turbine manufacturers. The Company's design portfolio includes a broad range of drive trains and power ratings of 2 MWs and higher. The Company provides a broad range of power electronics and software-based control systems that are highly integrated and designed for optimized performance, efficiency, and grid compatibility.

Through the Company's Gridtec Solutions, the Grid business segment enables electric utilities and renewable energy project developers to connect, transmit and distribute power with exceptional efficiency, reliability and affordability. The sales process is enabled by transmission planning services that allow it to identify power grid congestion, poor power quality and other risks, which helps the Company determine how its solutions can improve network performance. These services often lead to sales of grid interconnection solutions for wind farms and solar power plants, power quality systems, and transmission and distribution cable systems. The Company also sells ship protection products to the U.S. Navy through its Grid business segment.

The operating results for the two business segments are as follows (in thousands):

21

| | Three months ended December 31, 2015 | | Nine months ended December 31, 2014 | |
|-----------|---|----------|--|----------|
| Revenues: | | | | |
| Wind | \$17,229 | \$15,131 | \$48,976 | \$30,244 |
| Grid | 8,543 | 6,119 | 19,523 | 15,157 |
| Total | \$25,772 | \$21,250 | \$68,499 | \$45,401 |

| | Three months ended December 31, 2015 | | Nine months ended December 31, 2014 | |
|--------------------------------|---|-----------|---|------------|
| Operating (loss) profit: | | | | |
| Wind | \$(263) | \$1,301 | \$(2,127) | \$(16,790) |
| Grid | (2,342) | (7,050) | (12,963) | (20,016) |
| Unallocated corporate expenses | (707) | (1,986) | (3,321) | (9,995) |
| Total | \$(3,312) | \$(7,735) | \$(18,411) | \$(46,801) |

The accounting policies of the business segments are the same as those for the consolidated Company. The Company's business segments have been determined in accordance with the Company's internal management structure, which is organized based on operating activities. The Company evaluates performance based upon several factors, of which the primary financial measures are segment revenues and segment operating loss. The disaggregated financial results of the segments reflect allocation of certain functional expense categories consistent with the basis and manner in which Company management internally disaggregates financial information for the purpose of assisting in making internal operating decisions. In addition, certain corporate expenses which the Company does not believe are specifically attributable or allocable to either of the two business segments have been excluded from the segment operating loss.

Unallocated corporate expenses primarily consist of stock-based compensation expense of \$0.7 million and \$2.5 million in the three and nine months ended December 31, 2015, respectively, and an impairment charge of \$0.7 million for the nine months ended December 31, 2015. Unallocated corporate expenses primarily consist of stock-based compensation expense of \$1.5 million and \$4.6 million, and restructuring and impairment charges of \$0.5 million and \$5.4 million, for the three and nine months ended December 31, 2014, respectively.

Total assets for the two business segments as of December 31, 2015 and March 31, 2015 are as follows (in thousands):

| | December 31, 2015 | March 31, 2015 |
|------------------|-------------------------|----------------------|
| Wind | \$35,833 | \$41,947 |
| Grid | 38,160 | 42,482 |
| Corporate assets | 61,842 | 49,396 |
| Total | \$135,835 | \$133,825 |

The following table sets forth customers who represented 10% or more of the Company's total revenues for the three and nine months ended December 31, 2015 and 2014:

| | Three months ended December 31, | | Nine months ended December 31, | |
|---------------------|---------------------------------|------|--------------------------------|------|
| | 2015 | 2014 | 2015 | 2014 |
| INOX Wind Limited | 64% | 61% | 58% | 54% |
| Fuji Bridex Pte Ltd | 18% | —% | <10% | —% |

16. Recent Accounting Pronouncements

In May 2014, the FASB and the International Accounting Standards Board (IASB) issued ASU 2014-09, ASU Revenue from Contracts with Customers (Topic 606). The guidance substantially converges final standards on revenue recognition between the FASB and IASB providing a framework on addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles. The ASU is effective for annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact, if any, the adoption of ASU 2014-09 may have on its current practices.

In July 2014, the FASB issued ASU 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share Based Payments When the Terms of an Award Provide that a Performance Target could be Achieved after the Requisite Service Period. To account for such awards, a reporting entity should apply existing guidance in FASB Accounting Standards Codification Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. This ASU is effective for annual reporting periods and interim periods, within those annual periods beginning after December 15, 2015. The Company is currently evaluating the impact, if any, the adoption of ASU 2014-12 may have on its current practices.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern. The new standard explicitly requires the assessment at interim and annual periods, and provides management with its own disclosure guidance. This ASU is effective for annual reporting periods and interim periods, within those annual periods ending after December 15, 2016. The Company is currently evaluating the impact, if any, the adoption of ASU 2014-15 may have on its current practices.

In April 2015, the FASB issued ASU 2015-03 Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in ASU 2015-03 require an entity to present debt issuance costs on the balance sheet as a direct deduction from the related debt liability as opposed to an asset. Amortization of the costs will continue to be reported as interest expense. This ASU is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, the adoption of ASU 2015-03 may have on its current practices, and currently does not believe there will be an impact on its consolidated results of operations, financial condition, or cash flow.

In June 2015, the FASB issued ASU 2015-10 Technical Corrections and Improvements. The amendments in ASU 2015-10 clarify and correct some of the differences that arose between original guidance from FASB, EITF and other sources, and the translation into the new Codification. This ASU is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, the adoption of ASU 2015-10 may have on its current practices, and currently does not believe there will be an impact on its consolidated results of operations, financial condition, or cash flow.

In July 2015, the FASB issued ASU 2015-11 Inventory (Topic 330): Simplifying the Measurement of Inventory. The amendments in ASU 2015-11 clarify the proper way to identify market value in the use of lower of cost or market value valuation method. As market value could be determined multiple ways under prior standards, it will now be considered as net realizable value. This ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, the adoption of ASU 2015-11 may have on its current practices.

In September 2015, the FASB issued ASU 2015-16 Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The amendments in ASU 2015-16 require that an acquirer recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustment amounts are determined. This ASU is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, the adoption of ASU 2015-16 may have on its current practices, and currently does not believe there will be an impact on its consolidated results of operations, financial condition, or cash flow.

In November 2015, the FASB issued ASU 2015-17 Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. The amendments in ASU 2015-17 require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, the adoption of ASU 2015-17 may have on its current practices.

In January 2016, the FASB issued ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in ASU 2016-01 will enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. This ASU is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, the adoption of ASU 2016-01 may have on its current practices.

17. Subsequent Events

The Company has performed an evaluation of subsequent events through the time of filing this Quarterly Report on Form 10-Q with the SEC, and has determined that there are no such events to report.

AMERICAN SUPERCONDUCTOR CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For this purpose, any statements contained herein that relate to future events or conditions, including without limitation, the statements in Part II, "Item 1A. Risk Factors" and in Part I under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and located elsewhere herein regarding industry prospects or our prospective results of operations or financial position, may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements. Such forward-looking statements represent management's current expectations and are inherently uncertain. There are a number of important factors that could materially impact the value of our common stock or cause actual results to differ materially from those indicated by such forward-looking statements. Such factors include: We have a history of operating losses, which may continue in the future. Our operating results may fluctuate significantly from quarter to quarter and may fall below expectations in any particular fiscal quarter; We have a history of negative operating cash flows, and we may require additional financing in the future, which may not be available to us; Our Term Loans include certain covenants and other events of default. Should we not comply with these covenants or incur an event of default, we may be required to repay our obligation in cash, which could have an adverse effect on our liquidity; We may be required to issue performance bonds or provide letters of credit, which restricts our ability to access any cash used as collateral for the bonds or letters of credit; Changes in exchange rates could adversely affect our results from operations; If we fail to maintain proper and effective internal controls over financial reporting, our ability to produce accurate and timely financial statements could be impaired and may lead investors and other users to lose confidence in our financial data; Our financial condition may have an adverse effect on our customer and supplier relationships; Our success in addressing the wind energy market is dependent on the manufacturers that license our designs; A significant portion of our revenues are derived from a single customer; Our success is dependent upon attracting and retaining qualified personnel and our inability to do so could significantly damage our business and prospects; We may not realize all of the sales expected from our backlog of orders and contracts; Our business and operations would be adversely impacted in the event of a failure or security breach of our information technology infrastructure; We may not be able to ramp up production at our newly leased manufacturing facility in Romania, and, if we are able to do so, we may have manufacturing quality issues, which would negatively affect our revenues and financial position; We rely upon third-party suppliers for the components and subassemblies of many of our Wind and Grid products, making us vulnerable to supply shortages and price fluctuations, which could harm our business; Many of our revenue opportunities are dependent upon subcontractors and other business collaborators; If we fail to implement our business strategy successfully, our financial performance could be harmed; Problems with product quality or product performance may cause us to incur warranty expenses and may damage our market reputation and prevent us from achieving increased sales and market share; Regulations related to conflict-free minerals may force us to incur significant additional expenses; Our contracts with the U.S. government are subject to audit, modification or termination by the U.S. government and include certain other provisions in favor of the government. The continued funding of such contracts remains subject to annual congressional appropriation which, if not approved, could reduce our revenue and lower or eliminate our profit; Many of our customers outside of the United States, particularly in China, are either directly or indirectly, related to governmental entities, and we could be adversely affected by violations of the United States Foreign Corrupt Practices Act and similar worldwide anti-bribery laws outside the United States; We have had limited experience in marketing and selling our superconductor products and system-level solutions, and our failure to effectively market and sell our products and solutions could lower our revenue and cash

flow; We may acquire additional complementary businesses or technologies, which may require us to incur substantial costs for which we may never realize the anticipated benefits; Our success depends upon the commercial use of high temperature superconductor (HTS) products, which is currently limited, and a widespread commercial market for our products may not develop; Growth of the wind energy market depends largely on the availability and size of government subsidies and economic incentives; We have operations in and depend on sales in emerging markets, including India and China, and global conditions could negatively affect our operating results or limit our ability to expand our operations outside of these countries. Changes in India's or China's political, social, regulatory and economic environment may affect our financial performance; Our products face intense competition, which could limit our ability to acquire or retain customers; Our international operations are subject to risks that we do not face in the United States, which could have an adverse effect on our operating results; Adverse changes in domestic and global economic conditions could adversely affect our operating results; We may be unable to adequately prevent disclosure of trade secrets and other proprietary information; Our patents may not provide meaningful protection for our technology, which could result in us losing some or all of our market position; There are a number of technological challenges that must be successfully addressed before our superconductor products can gain widespread commercial acceptance, and our inability to address such technological challenges could adversely affect our ability to acquire customers for our products; Third parties have or may acquire patents that cover the materials, processes and technologies we use or may use in the future to manufacture our Amperium products, and our success depends on our ability to license such patents or other proprietary rights; Our technology and products could infringe intellectual property rights of others, which may require costly litigation and, if we are not successful, could cause us to pay substantial damages and disrupt our business; We have filed a demand for arbitration and other lawsuits against our former

largest customer, Sinovel, regarding amounts we contend are overdue. We cannot be certain as to the outcome of these proceedings; We have been named as a party in various legal proceedings, and we may be named in additional litigation, all of which will require significant management time and attention, result in significant legal expenses and may result in an unfavorable outcome, which could have a material adverse effect on our business, operating results and financial condition; and our common stock has experienced, and may continue to experience, significant market price and volume fluctuations, which may prevent our stockholders from selling our common stock at a profit and could lead to costly litigation against us that could divert our management's attention. These and the important factors discussed under the caption "Risk Factors" in Part 1. Item 1A of our Form 10-K for the fiscal year ended March 31, 2015, among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time. Any such forward-looking statements represent management's estimates as of the date of this Quarterly Report on Form 10-Q. While we may elect to update such forward-looking statements at some point in the future, we disclaim any obligation to do so, even if subsequent events cause our views to change. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

American Superconductor[®], Amperium[®], AMSC[®], D-VAR[®], PowerModule[™], PQ-IVR[®], SeaTitan[™], Gridtec Solutions[™], Windtec Solutions[™] and Smarter, Cleaner... Better Energy[™] are trademarks or registered trademarks of American Superconductor Corporation or our subsidiaries. We reserve all of our rights with respect to our trademarks or registered trademarks regardless of whether they are so designated in this Quarterly Report on Form 10-Q by an [®] or [™] symbol. All other brand names, product names, trademarks or service marks appearing in this Quarterly Report on Form 10-Q are the property of their respective holders.

Executive Overview

American Superconductor Corporation was founded on April 9, 1987. We are a leading provider of megawatt-scale solutions that lower the cost of wind power and enhance the performance of the power grid. In the wind power market, we enable manufacturers to field highly competitive wind turbines through our advanced power electronics products, engineering, and support services. In the power grid market, we enable electric utilities and renewable energy project developers to connect, transmit and distribute power through our transmission planning services and power electronics and superconductor-based products. Our wind and power grid products and services provide exceptional reliability, security, efficiency and affordability to our customers.

Our wind and power grid solutions help to improve energy efficiency, alleviate power grid capacity constraints and increase the adoption of renewable energy generation. Demand for our solutions is driven by the growing needs for renewable sources of electricity, such as wind and solar energy, and for modernized smart grids that improve power reliability, security and quality. Concerns about these factors have led to increased spending by corporations as well as supportive government regulations and initiatives on local, state, national and global levels, including renewable portfolio standards, tax incentives and international treaties.

We manufacture products using two proprietary core technologies: PowerModule programmable power electronic converters and our Amperium high temperature superconductor ("HTS") wires. These technologies and our system-level solutions are protected by a broad and deep intellectual property portfolio consisting of hundreds of patents and licenses worldwide.

We operate our business under two market-facing business units: Wind and Grid. We believe this market-centric structure enables us to more effectively anticipate and meet the needs of wind turbine manufacturers, power generation project developers and electric utilities.

Wind. Through our Windtec Solutions[™], our Wind business segment enables manufacturers to field wind turbines with exceptional power output, reliability and affordability. We supply advanced power electronics and control systems, license our highly engineered wind turbine designs, and provide extensive customer support services to

wind turbine manufacturers. Our design portfolio includes a broad range of drive trains and power ratings of 2 megawatts (“MW”) and higher. We provide a broad range of power electronics and software-based control systems that are highly integrated and designed for optimized performance, efficiency, and grid compatibility.

Grid. Through our Gridtec Solutions™, our Grid business segment enables electric utilities and renewable energy project developers to connect, transmit and distribute power with exceptional efficiency, reliability, security and affordability. We provide transmission planning services that allow us to identify power grid congestion, poor power quality, and other risks, which help us determine how our solutions can improve network performance. These services often lead to sales of our grid interconnection solutions for wind farms and solar power plants, power quality systems and transmission and distribution cable systems. We also sell ship protection products to the U.S. Navy through our Grid business segment.

Our fiscal year begins on April 1 and ends on March 31. When we refer to a particular fiscal year, we are referring to the fiscal year beginning on April 1 of that same year. For example, fiscal 2015 refers to the fiscal year beginning on April 1, 2015. Other fiscal years follow similarly.

On March 24, 2015, we effected a 1-for-10 reverse stock split on our common stock. Trading of our common stock reflected the reverse stock split beginning March 25, 2015. Unless otherwise indicated, all historical references to shares of common stock, shares of restricted stock, restricted units, shares underlying stock options, warrants or calculations that use common stock for per share financial reporting have been adjusted for comparative purposes to reflect the impact of the 1-for-10 reverse stock split as if it had occurred at the beginning of the earliest period presented.

We have experienced recurring operating losses and as of December 31, 2015, had an accumulated deficit of \$924.8 million. In addition, we have experienced recurring negative operating cash flows. At December 31, 2015, we had cash and cash equivalents of \$36.4 million. Cash used in operations for the nine months ended December 31, 2015 was \$7.8 million.

Over the last several years, we have entered into several debt and equity financing arrangements in order to enhance liquidity. Since April 1, 2012, we generated aggregate cash flows from financing activities of \$72.0 million. This amount includes proceeds from our April 2015 equity offering, which generated net proceeds of approximately \$22.3 million, after deducting underwriting discounts and commissions and estimated offering expenses. See Note 10, "Debt", and Note 12 "Stockholders Equity" for further discussion of these financing arrangements. We believe that we are in compliance with the covenants and restrictions included in the agreements governing our debt arrangements as of December 31, 2015.

On March 31, 2011, Sinovel Wind Group Co., Ltd. ("Sinovel") refused to accept contracted scheduled shipments with a revenue value of approximately \$65.2 million. In addition, as of March 31, 2011, we had approximately \$62.0 million of receivables (excluding value-added tax) outstanding from Sinovel. As of the date of this filing, we have not received payment from Sinovel for these outstanding receivables that are now past due, nor have we been notified as to when, if ever, they will accept contracted shipments that were scheduled for delivery after March 31, 2011. No payment has been received from Sinovel since early March 2011. Because Sinovel did not give us notice that it intended to delay deliveries as required under the contracts, we believe that these actions constitute material breaches of our contracts. Additionally, we believe that Sinovel illegally obtained and used our intellectual property in violation of civil and criminal intellectual property laws.

On September 13, 2011, we commenced a series of legal actions in China against Sinovel. We filed a claim for arbitration in Beijing, China to compel Sinovel to pay us for past product shipments and to accept all contracted but not yet delivered core electrical components and spare parts under all existing contracts with us. The arbitration claim was filed with the Beijing Arbitration Commission in accordance with the terms of our supply contracts with Sinovel. We also filed civil and criminal complaints against Sinovel.

We cannot provide any assurance as to the outcome of these legal actions. For more information about these legal proceedings, see Part II, Item 1, "Legal Proceedings."

Our cash requirements depend on numerous factors, including the successful completion of our product development activities, our ability to commercialize our Resilient Electric Grid ("REG") and ship protection system solutions, rate of customer and market adoption of our products, collecting receivables according to established terms, and the continued availability of U.S. government funding during the product development phase of our Superconductors based products. In addition we are focused on achieving certain operational objectives. During the first half of fiscal 2015, we achieved our near term objectives, including announcing that Washington D.C.'s Pepco is conducting a deployment study of our REG system; receiving a large wind order from Inox Wind Ltd ("Inox"); announcing new D-VAR orders; and announcing new authorized funding for Project REG. In the longer term, we expect to have a decision on moving to the manufacturing and construction phase of Project REG and we expect to receive additional business from the U.S. Navy. In addition, in December 2015, we entered into a set of strategic agreements valued at approximately \$210.0 million with Inox, which includes a multi-year supply contract pursuant to which the Company will supply electric control systems to Inox and a license agreement allowing Inox to manufacture a limited number of

electrical control systems over the next three to four years. After this initial three to four year period, the Company will continue as Inox's preferred supplier and Inox will be required to purchase from the Company a majority of its electric control systems requirements for an additional three-year period. These agreements are expected to provide a foundation for the business as we pursue our longer-term objectives. Significant deviations to our business plan with regard to these factors and events, which are important drivers to our business, could have a material adverse effect on our operating performance, financial condition, and future business prospects. We expect to pursue the expansion of our operations through internal growth, diversification of our customer base, and potential strategic alliances. See below for a discussion of liquidity and capital resources.

On October 6, 2015, 100% of the outstanding common stock of Blade Dynamics Limited ("Blade Dynamics") was acquired by a subsidiary of General Electric Company. After deducting transaction expenses, we received net proceeds of \$2.5 million from the sale, which was recorded as a gain during the three months ended December 31, 2015. Additionally, under the terms of the purchase agreement, we may be entitled to receive up to an additional \$1.6 million in proceeds, upon the successful achievement of certain milestones by Blade Dynamics over the next three years. We no longer believe our investment in Tres Amigas, LLC, a Delaware limited liability Company ("Tres Amigas") is recoverable. We fully impaired our remaining investment in Tres Amigas during the three months ended June 30, 2015. (See Note 14, "Minority Investments", for further information about such investment).

Critical Accounting Policies and Estimates

The preparation of the unaudited condensed consolidated financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ under different assumptions or conditions. There were no significant changes in the critical accounting policies during the nine months ended December 31, 2015 that were disclosed in our Form 10-K for fiscal 2014, which ended on March 31, 2015.

Results of Operations

Three and nine months ended December 31, 2015 compared to the three and nine months ended December 31, 2014

Revenues

Total revenues increased 21% and 51% to \$25.8 million and \$68.5 million for the three and nine months ended December 31, 2015, respectively, compared to \$21.3 million and \$45.4 million for the three and nine months ended December 31, 2014, respectively. Our revenues are summarized as follows (in thousands):

| | Three months ended December 31, 2015 | | Nine months ended December 31, 2015 | |
|-----------|---|----------|--|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues: | | | | |
| Wind | \$17,229 | \$15,131 | \$48,976 | \$30,244 |
| Grid | 8,543 | 6,119 | 19,523 | 15,157 |
| Total | \$25,772 | \$21,250 | \$68,499 | \$45,401 |

Our Wind business unit accounted for 67% and 71% of total revenues for the three and nine months ended December 31, 2015, respectively, compared to 71% and 67% for the three and nine months ended December 31, 2014, respectively. Revenues in the Wind business unit increased 14% and 62% to \$17.2 million and \$49.0 million in the three and nine months ended December 31, 2015, respectively, from \$15.1 million and \$30.2 million in the three and nine months ended December 31, 2014, respectively. Wind business unit revenues during the three months ended December 31, 2015 increased primarily due to higher volume of sales to Inox in India. Wind business unit revenues in the nine months ended December 31, 2015, increased primarily due to higher volume of sales to Inox in India and Beijing JINGCHENG New Energy ("JCNE") in China.

Our Grid business unit accounted for 33% and 29% of total revenues for the three and nine months ended December 31, 2015, respectively, compared to 29% and 33% for the three and nine months ended December 31, 2014, respectively. Our Grid business unit revenues increased 40% and 29% to \$8.5 million and \$19.5 million in the three and nine months ended December 31, 2015, respectively, from \$6.1 million and \$15.2 million in the three and nine months ended December 31, 2014, respectively. Grid business unit revenues increased in the three and nine months ended December 31, 2015 primarily due to higher D-VAR system revenues, partially offset by lower HTS wire sales, particularly in the nine months ended December 31, 2015.

Revenues from Project HYDRA and Project REG represented 6% and 7% of our Grid business unit's revenue for the three and nine months ended December 31, 2015, respectively, compared to 10% and 9% for the three and nine months ended December 31, 2014, respectively. Our revenues for these projects are derived by funding from the

Department of Homeland Security (“DHS”). Project HYDRA is a project with Consolidated Edison, Inc. (“ConEd”) to demonstrate our REG product in ConEd’s electric grid. Project REG is a project with Commonwealth Edison, Inc. (“ComEd”) to permanently install our REG product in ComEd’s electric grid. This fault current limiting cable system is designed to utilize customized Amperium® HTS wire, and ancillary controls to deliver more power through the grid while also being able to suppress power surges that can disrupt service. DHS has committed 100% of the total expected funding of \$29.0 million for Project HYDRA. Under Project REG, DHS is expected to invest up to \$60.0 million to enable the deployment of the REG system in Chicago’s electric grid. We are nearing completion on the first phase of the project which among other things, will result in the creation of a detailed deployment plan. In the fiscal year ended March 31, 2015, DHS committed funding of \$1.5 million for the first phase of the project. During the three months ended September 30, 2015, DHS committed funding of an additional \$3.7 million, for a total of \$5.2 million. This additional funding serves as a bridge between the detailed deployment plan and construction phases of the project. The period of performance to complete the engineering work extends through May 31, 2017. The final phase of the project involves the delivery of the REG system and the associated construction and deployment of the system in ComEd’s grid. We will not begin this phase of the project until all parties agree to proceed. There can be no assurance that all parties will agree to proceed with the project.

Edgar Filing: AMERICAN SUPERCONDUCTOR CORP /DE/ - Form 10-Q

The following table sets forth customers who represented 10% or more of our total revenues for the three and nine months ended December 31, 2015 and 2014:

| | Three months ended December 31, | | Nine months ended December 31, | |
|---------------------|---------------------------------|------|--------------------------------|------|
| | 2015 | 2014 | 2015 | 2014 |
| INOX Wind Limited | 64% | 61% | 58% | 54% |
| Fuji Bridex Pte Ltd | 18% | —% | <10% | —% |

Cost of Revenues and Gross Margin

Cost of revenues increased by 6% and 27% to \$19.3 million and \$55.8 million for the three and nine months ended December 31, 2015, respectively, compared to \$18.1 million and \$44.0 million for the three and nine months ended December 31, 2014, respectively. Gross margin was 25.3% and 18.6% for the three and nine months ended December 31, 2015, respectively, compared to 14.9% and 3.2% for the three and nine months ended December 31, 2014, respectively. The increases in gross margin for the three and nine months ended December 31, 2015 as compared to the same periods in fiscal 2014, were primarily due to higher revenues and a more favorable product mix for our D-VAR product as well as from higher Wind royalty revenues in the nine months ended December 31, 2015.

Operating Expenses

Research and development

R&D expenses decreased by 1% each to \$2.8 million and \$8.9 million for both the three and nine months ended December 31, 2015, respectively, from \$2.8 million and \$9.0 million for the three and nine months ended December 31, 2014, respectively. The slight decreases in both periods are primarily the result of lower stock compensation expense partially offset by new product development expenses in our Grid segment.

Selling, general, and administrative

SG&A expenses decreased by 7% and 9% to \$7.0 million and \$21.3 million in the three and nine months ended December 31, 2015, respectively, from \$7.5 million and \$23.5 million in the three and nine months ended December 31, 2014, respectively. The decreases in SG&A expenses were due primarily to the realization of savings from cost reduction actions that were implemented in prior periods as well as reductions in stock compensation and legal costs.

Arbitration award expense

We recorded an arbitration award expense of \$10.2 million in the nine months ended December 31, 2014 following a decision by the Arbitration Tribunal for the ICC International Court of Arbitration on August 29, 2014 finding us liable for damages under a breach of contract proceeding against Ghodawat Energy Pvt Ltd (“Ghodawat”).

Amortization of acquisition related intangibles

We recorded amortization expense related to our core technology and know-how, trade names and trademark intangible assets of less than \$0.1 million and \$0.1 million in the three and nine months ended December 31, 2015 and 2014, respectively.

Restructuring and Impairments

We recorded restructuring and impairment charges of \$0.8 million in the nine months ended December 31, 2015, which included an impairment charge of \$0.7 million to fully impair our investment in Tres Amigas as our investment is no longer deemed recoverable. We recorded \$0.5 million and \$5.4 million of restructuring and impairment charges in the three and nine months ended December 31, 2014, respectively. These amounts include restructuring charges of \$0.5 million and \$1.9 million which were recorded during the three and nine months ended December 31, 2014. These amounts include severance, relocation, lease termination and other costs associated with the consolidation of our facility in Middleton, WI into our facility in Devens, MA, as well as headcount reductions in our China operation, primarily during the nine months ended December 31, 2014. In addition, the \$5.4 million recorded in the nine months ended December 31, 2014 includes an impairment charge of \$3.5 million on our minority investment in Blade Dynamics. The impairment charge followed an analysis in which we determined that this investment was not recoverable due to a dilutive financing which resulted in the loss of certain of our shareholder rights, as well as certain operational issues in the company.

Operating loss

Our operating loss is summarized as follows (in thousands):

| | Three months ended December 31, | | Nine months ended December 31, | |
|--------------------------------|---------------------------------------|-----------|-----------------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Operating (loss) profit: | | | | |
| Wind | \$(263) | \$1,301 | \$(2,127) | \$(16,790) |
| Grid | (2,342) | (7,050) | (12,963) | (20,016) |
| Unallocated corporate expenses | (707) | (1,986) | (3,321) | (9,995) |
| Total | \$(3,312) | \$(7,735) | \$(18,411) | \$(46,801) |

Our Wind segment generated operating losses of \$0.3 million and \$2.1 million in the three and nine months ended December 31, 2015, respectively, compared to profit of \$1.3 million and a loss of \$16.8 million in the three and nine months ended December 31, 2014, respectively. The increase in the Wind business unit operating loss during the three months ended December 31, 2015 was due primarily to the decreased consumption of zero-cost inventory and lower royalty revenues, partially offset by higher ECS product revenues. The decrease in the Wind business unit operating loss during the nine months ended December 31, 2015 was due primarily to increased revenues for shipments to Inox in India and JCNE in China, a favorable revenue mix as a result of higher royalty revenues in the nine months ended December 31, 2015, and a charge of \$10.2 million in the nine months ended December 31, 2014 relating to the arbitration award to Ghodawat.

The operating losses in our Grid segment decreased to \$2.3 million and \$13.0 million in the three and nine months ended December 31, 2015, respectively, compared to \$7.0 million and \$20.0 million in the three and nine months ended December 31, 2014, respectively. The decrease in the Grid business unit operating loss during the three months ended December 31, 2015 was driven primarily by increased D-VAR revenues in the current year period. The decrease in the Grid business unit operating loss during the nine months ended December 31, 2015 was driven primarily by higher D-VAR revenues, increased production which resulted in better factory absorption, and the favorable impact of consolidating our Wisconsin facility into our Massachusetts facility during fiscal year 2014 which improved gross margin.

Unallocated corporate expenses primarily include stock-based compensation expense of \$0.7 million and \$2.5 million for the three and nine months ended December 31, 2015, respectively, and an impairment charge of \$0.7 million, for the nine months ended December 31, 2015. Unallocated corporate expenses primarily consist of stock-based compensation expense of \$1.5 million and \$4.6 million, and restructuring charges of \$0.5 million and \$5.4 million for the three and nine months ended December 31, 2014, respectively.

Change in fair value of derivatives and warrants

The change in fair value of derivatives and warrants resulted in a loss of \$1.1 million and a gain of \$0.4 million in the three and nine months ended December 31, 2015, respectively, compared to gains of \$2.3 million and \$3.0 million in the three and nine months ended December 31, 2014, respectively. The changes in the fair value were primarily driven by changes in stock price, which is a key valuation metric.

Gain on sale of minority interest

We recorded a gain on sale of minority interest of \$2.5 million in the three months ended December 31, 2015, related to the sale of our investment in Blade Dynamics in that period.

Interest expense, net

Interest expense, net, was \$0.2 million and \$0.8 million in the three and nine months ended December 31, 2015, respectively, compared to \$0.5 million and \$1.6 million in the three and nine months ended December 31, 2014, respectively. The decreases in interest expense were due primarily to the maturity of one of our term loans with Hercules Technology Growth Capital, Inc. (“Hercules”) in December 2014.

29

Other (expense) income, net

Other (expense) income, net, was an expense of less than \$0.1 million and \$1.2 million in the three and nine months ended December 31, 2015, respectively, compared to other expense, net of \$0.2 million and other income, net of \$0.4 million in the three and nine months ended December 31, 2014, respectively. The decrease in other expense, net during the three months ended December 31, 2015, was primarily driven by lower foreign currency losses. The increase in other expense during the nine months ended December 31, 2015 was driven primarily by higher foreign currency losses in the current year as opposed to foreign currency gains in the prior year period, partially offset by lower minority interest charges resulting from the impairment of our minority interest in Tres Amigas during the three months ended June 30, 2015.

Income Taxes

Income tax expense was \$0.8 million and \$2.3 million in the three and nine months ended December 31, 2015, respectively, compared to \$0.2 million and \$0.4 million in the three and nine months ended December 31, 2014, respectively. The increases in income tax expense in both periods were primarily due to taxes related to dividend withholding taxes and increases in income taxes, including tax reserves, in foreign jurisdictions.

Non-GAAP Measures

Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flow that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP measures included in this Form 10-Q, however, should be considered in addition to, and not as a substitute for or superior to the comparable measure prepared in accordance with GAAP.

We define non-GAAP net loss as net loss before gain on sale of investment in Blade Dynamics, stock-based compensation, arbitration award expense, amortization of acquisition-related intangibles, restructuring and impairment charges, consumption of zero cost-basis inventory, changes in fair value of derivatives and warrants, non-cash interest expense, and the other non-cash or unusual charges, net of any tax effects related to these items, indicated in the table below. We believe non-GAAP net loss assists management and investors in comparing our performance across reporting periods on a consistent basis by excluding these non-cash or non-recurring charges that we do not believe are indicative of our core operating performance. We also regard non-GAAP net loss as a useful measure of operating performance which more closely aligns net loss with cash used in/provided by continuing operations. In addition, we use non-GAAP net loss as a factor in evaluating management's performance when determining incentive compensation and to evaluate the effectiveness of our business strategies. A reconciliation of non-GAAP to GAAP net loss is set forth in the table below (in thousands, except per share data):

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|---------------------------------------|-----------|-----------------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net loss | \$(2,957) | \$(6,353) | \$(19,777) | \$(45,292) |
| Gain on sale of interest in Blade Dynamics, net of tax effect | (2,354) | - | (2,354) | - |
| Stock-based compensation | 708 | 1,521 | 2,542 | 4,620 |
| Arbitration award expense | - | - | - | 10,188 |
| Amortization of acquisition-related intangibles | 39 | 39 | 118 | 118 |
| Restructuring and impairment charges | - | 507 | 779 | 5,416 |

Edgar Filing: AMERICAN SUPERCONDUCTOR CORP /DE/ - Form 10-Q

| | | | | |
|---|------------|------------|-------------|-------------|
| Consumption of zero cost-basis inventory | (1,543) | (3,143) | (3,612) | (5,710) |
| Change in fair value of derivatives and warrants | 1,092 | (2,288) | (409) | (3,048) |
| Non-cash interest expense | 83 | 147 | 290 | 490 |
| Non-GAAP net loss | \$(4,932) | \$(9,570) | \$(22,423) | \$(33,218) |
| Non-GAAP loss per share | \$(0.36) | \$(1.09) | \$(1.72) | \$(4.04) |
| Weighted average shares outstanding - basic and diluted | 13,539 | 8,764 | 13,052 | 8,228 |

We incurred non-GAAP net losses of \$4.9 million and \$22.4 million or \$0.36 and \$1.72 per share, for the three and nine months ended December 31, 2015, respectively, compared to non-GAAP net losses of \$9.6 million and \$33.2 million or \$1.09 and \$4.04 per share, for the three and nine months ended December 31, 2014, respectively. The decreases in non-GAAP net loss were driven primarily by higher revenues in both of our business units, including higher royalty revenues in our Wind segment, particularly in the nine months ended December 31, 2015, as previously discussed, as well as higher gross margin and lower operating expenses.

Liquidity and Capital Resources

At December 31, 2015, we had cash, cash equivalents, and restricted cash of \$37.7 million, compared to \$24.5 million at March 31, 2015, an increase of \$13.2 million. Our cash and cash equivalents, and restricted cash are summarized as follows (in thousands):

| | December 31, 2015 | March 31, 2015 |
|---|-------------------------|-------------------|
| Cash and cash equivalents | \$ 36,437 | \$ 20,490 |
| Restricted cash | 1,228 | 4,059 |
| Total cash, cash equivalents, and restricted cash | \$ 37,665 | \$ 24,549 |

For the nine months ended December 31, 2015, net cash used in operating activities was \$7.8 million compared to \$20.9 million for the nine months ended December 31, 2014. The decrease in net cash used in operations was due primarily to lower net loss for the reasons discussed above offset by an increase in cash used from changes in operating asset and liability accounts during the nine months ended December 31, 2015 compared to the nine months ended December 31, 2014.

For the nine months ended December 31, 2015, net cash provided by investing activities was \$4.9 million, compared to \$4.4 million for the nine months ended December 31, 2014. The increase in net cash provided by investing activities was due primarily to the proceeds from the sale of our minority interest in Blade Dynamics, partially offset by a net decrease in the change in restricted cash of \$1.9 million compared to the nine months ended December 31, 2014.

For the nine months ended December 31, 2015, net cash provided by financing activities was \$19.2 million compared to \$9.7 million in the nine months ended December 31, 2014. The increase in net cash provided by financing activities was primarily due to net proceeds of \$22.3 million from the issuance of 4.0 million shares of common stock on April 29, 2015, which was an increase of \$7.3 million over the prior year period net offering proceeds from the sale of shares under our At-Market Sales Arrangement and an equity offering in November 2014. Additionally, amounts repaid for debt decreased by \$3.3 million compared to the prior year period due to the repayment in full of one of our term loans in the prior-year period.

At December 31, 2015, we had \$0.4 million of restricted cash included in current assets and \$0.8 million of restricted cash included in long-term assets. These amounts included in restricted cash primarily represent deposits to secure letters of credit for various supply contracts and customs authorities. These deposits are held in interest bearing accounts.

On June 5, 2012, we entered into a Loan and Security Agreement (the "Term Loan") with Hercules, under which we borrowed \$10.0 million. After the closing fees and expenses, the net proceeds were \$9.7 million. The Term Loan bears an interest rate equal to 11% plus the percentage, if any, in which the prime rate as reported by The Wall Street Journal exceeds 3.75%. We made interest only payments from July 1, 2012 through October 31, 2012, after which we began paying the Term Loan in equal monthly installments ending on December 1, 2014, when the loan was repaid in full.

On November 15, 2013, we amended the Term Loan with Hercules and entered into a new term loan (the "New Term Loan B"), borrowing an additional \$10.0 million. After closing fees and expenses, we received net proceeds of \$9.8 million. The New Term Loan B also bears the same interest rate as the Term Loan. We made interest-only payments from December 1, 2013 to May 31, 2014. If we achieved certain revenue targets for the six-month period ending March 31, 2014, interest only payments would continue through August 31, 2014. We did not achieve the revenue

required to extend this interest only period. Beginning June 1, 2014, we began making payments on the New Term Loan B in equal monthly installments which will end on November 1, 2016.

On December 19, 2014, we entered into an amendment with Hercules (the “Hercules Second Amendment”) and entered into a new term loan (the “New Term Loan C”), borrowing an additional \$1.5 million (we collectively refer to the Term Loan, the New Term Loan B, and New Term Loan C as the “Term Loans”). After closing fees and expenses, the net proceeds from the New Term Loan C were \$1.4 million. The New Term Loan C also bears the same interest rate as the other Term Loans. We will make interest only payments until maturity on June 1, 2017, when the loan is scheduled to be repaid in its entirety. The maturity date of the New Term Loan C was extended from March 1, 2017 to June 1, 2017 due to our April 2015 equity offering which raised more than \$10 million in new capital before December 31, 2015 (see discussion below).

The Term Loans are secured by substantially all of our existing and future assets, including a mortgage on real property owned by our wholly-owned subsidiary, ASC Devens LLC, and located at 64 Jackson Road, Devens, Massachusetts. The Term Loans contain certain covenants that restrict our ability to, among other things, incur or assume certain debt, merge or consolidate, materially change the nature of our business, make certain investments, acquire or dispose of certain assets, make guarantees or grant liens on our assets, make certain loans, advances or investments, declare dividends or make distributions or enter into transactions with affiliates. In addition, there is a covenant that requires us to maintain a minimum unrestricted cash balance (the “Minimum Threshold”) in the United States. As part of the Hercules Second Amendment, this Minimum Threshold was amended to be the lower of \$5.0 million or the aggregate outstanding principal balance of the Term Loans. As a result of the April 2015 offering (see discussion below), the Minimum Threshold was reduced to the lesser of \$2.0 million or the aggregate outstanding principal balance of the Term Loans. As of December 31, 2015, the Minimum Threshold was \$2.0 million. The events of default under the Term Loans include, but are not limited to, failure to pay amounts due, breaches of covenants, bankruptcy events, cross defaults under other material indebtedness and the occurrence of a material adverse effect and/or change in control. In the case of a continuing event of default, Hercules may, among other remedies, declare due all unpaid principal amounts outstanding and any accrued but unpaid interest and foreclose on all collateral granted to Hercules as security under the Term Loans.

We believe we are in and expect to remain in compliance with the covenants and restrictions under the Term Loans as of the date of this Quarterly Report on Form 10-Q. If we fail to stay in compliance with our covenants or experience some other event of default, we may be forced to repay the outstanding principal on the Term Loans.

We have experienced recurring operating losses and as of December 31, 2015, had an accumulated deficit of \$924.8 million. In addition, we have experienced recurring negative operating cash flows. At December 31, 2015, we had cash and cash equivalents of \$36.4 million, as compared to cash used in operations of \$7.8 million for the nine months ended December 31, 2015. On April 29, 2015, we completed an equity offering which raised net proceeds of \$22.3 million after deducting underwriting discounts and commissions and estimated offering expenses payable by us from the sale of 4.0 million shares of our common stock at a public offering price of \$6.00 per share. On October 6, 2015, 100% of the outstanding common stock of Blade Dynamics was acquired by a subsidiary of General Electric Company. After deducting transaction expenses, we received net proceeds of \$2.5 million from the sale, which was recorded as a gain during the three months ended December 31, 2015. Additionally, under the terms of the purchase agreement, we may be entitled to receive up to an additional \$1.6 million in proceeds, upon the successful achievement of certain milestones by Blade Dynamics over the next three years. In addition, in December 2015, we entered into a set of strategic agreements valued at approximately \$210.0 million with Inox, which includes a multi-year supply contract pursuant to which we will supply electric control systems to Inox and a license agreement allowing Inox to manufacture a limited number of electrical control systems over the next three to four years. After this initial three to four year period, we will continue as Inox’s preferred supplier and Inox will be required to purchase from us a majority of its electric control systems requirements for an additional three-year period. These agreements are expected to provide a foundation for the business as we pursue our longer-term objectives.

We believe we have sufficient available liquidity to fund our operations, capital expenditures and scheduled cash payments under our debt obligations for the next twelve months. Our liquidity is highly dependent on our ability to increase revenues, control our operating costs, and our ability to maintain compliance with the covenants and restrictions on our debt obligations (or obtain waivers from our lender in the event of non-compliance), and our ability to raise additional capital, if necessary. There can be no assurance that we will be able to continue to raise additional capital from other sources or execute on any other means of improving our liquidity as described above.

Legal Proceedings

We are involved in legal and administrative proceedings and claims of various types. See Part II, Item 1, “Legal Proceedings,” for additional information. We record a liability in our consolidated financial statements for these matters when a loss is known or considered probable and the amount can be reasonably estimated. We review these

estimates each accounting period as additional information is known and adjust the loss provision when appropriate. If a matter is both probable to result in liability and the amounts of loss can be reasonably estimated, we estimate and disclose the possible loss or range of loss to the extent necessary to make the consolidated financial statements not misleading. If the loss is not probable or cannot be reasonably estimated, a liability is not recorded in our consolidated financial statements.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined under SEC rules, such as relationships with unconsolidated entities or financial partnerships, which are often referred to as structured finance or special purpose entities, established for the purpose of facilitating transactions that are not required to be reflected on our balance sheet except as discussed below.

We occasionally enter into construction contracts that include a performance bond. As these contracts progress, we continually assess the probability of a payout from the performance bond. Should we determine that such a payout is probable, we would record a liability.

In addition, we have various contractual arrangements in which minimum quantities of goods or services have been committed to be purchased on an annual basis.

Recent Accounting Pronouncements

In May 2014, the FASB and the International Accounting Standards Board (IASB) issued, ASU Revenue from Contracts with Customers 2014-09 (Topic 606). The guidance substantially converges final standards on revenue recognition between the FASB and IASB providing a framework on addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles. The ASU is effective for annual reporting periods beginning after December 15, 2017. We are currently evaluating the impact, if any, the adoption of ASU 2014-09 may have on our current practices.

In July 2014, the FASB issued ASU 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period. To account for such awards, a reporting entity should apply existing guidance in FASB Accounting Standards Codification Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. This ASU is effective for annual reporting periods and interim periods, within those annual periods beginning after December 15, 2015. We are currently evaluating the impact, if any, the adoption of ASU 2014-12 may have on our current practices.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern. The new standard explicitly requires the assessment at interim and annual periods, and provides management with its own disclosure guidance. This ASU is effective for annual reporting periods and interim periods, within those annual periods ending after December 15, 2016. We are currently evaluating the impact, if any, the adoption of ASU 2014-15 may have on our current practices.

In April 2015, the FASB issued ASU 2015-03 Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in ASU 2015-03 require an entity to present debt issuance costs on the balance sheet as a direct deduction from the related debt liability as opposed to an asset. Amortization of the costs will continue to be reported as interest expense. This ASU is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those fiscal years. We are currently evaluating the impact, if any, the adoption of ASU 2015-03 may have on our current practices and currently do not believe there will be an impact on our consolidated results of operations, financial condition, or cash flow.

In June 2015, the FASB issued ASU 2015-10 Technical Corrections and Improvements. The amendments in ASU 2015-10 clarify and correct some of the difference that arose between original guidance from FASB, EITF and other sources, and the translation into the new Codification. This ASU is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those fiscal years. We are currently evaluating the impact, if any, the adoption of ASU 2015-10 may have on our current practices and currently do not believe there will be an impact on our consolidated results of operations, financial condition, or cash flow.

In July 2015, the FASB issued ASU 2015-11 Inventory (Topic 330): Simplifying the Measurement of Inventory. The amendments in ASU 2015-11 clarify the proper way to identify market value in the use of lower of cost or market value valuation method. As market value could be determined multiple ways under prior standards, it will now be considered as net realizable value. This ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. We are currently evaluating the impact, if any, the adoption of ASU 2015-11 may have on our current practices.

In September 2015, the FASB issued ASU 2015-16 Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The amendments in ASU 2015-16 require that an acquirer recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustment amounts are determined. This ASU is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those fiscal years. We are currently evaluating the impact, if any, the adoption of ASU 2015-16 may have on our current practices, and currently do not believe there will be an impact on our consolidated results of operations, financial condition, or cash flow.

In November 2015, the FASB issued ASU 2015-17 Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. The amendments in ASU 2015-17 require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. We are currently evaluating the impact, if any, the adoption of ASU 2015-17 may have on our current practices.

In January 2016, the FASB issued ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in ASU 2016-01 will enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. This ASU is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. We are currently evaluating the impact, if any, the adoption of ASU 2016-01 may have on our current practices.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We face exposure to financial market risks such as adverse movements in foreign currency exchange rates. These exposures may change over time as our business practices evolve and could have a material adverse impact on our financial results.

Cash and cash equivalents

Our exposure to market risk through financial instruments, such as investments in marketable securities, is limited to interest rate risk, which we do not believe is material to our financial condition or results of operations. Our investments in marketable securities consist primarily of government-backed securities and commercial paper and are designed, in order of priority, to preserve principal, provide liquidity, and maximize income. Investments are monitored to limit exposure to mortgage-backed securities and similar instruments responsible for the recent turmoil in the credit markets. Interest rates are variable and fluctuate with current market conditions. We do not believe that a 10% change in interest rates would have a material impact on our financial position or results of operations.

Foreign currency exchange risk

The functional currency of each of our foreign subsidiaries is the U.S. dollar, except for AMSC Austria, for which the local currency (Euro) is the functional currency and AMSC China, for which the local currency (Renminbi) is the functional currency. The assets and liabilities of AMSC Austria and AMSC China are translated into U.S. dollars at the exchange rate in effect at the balance sheet date and income and expense items are translated at average rates for the period. Cumulative translation adjustments are excluded from net loss and shown as a separate component of stockholders' equity.

We face exposure to movements in foreign currency exchange rates whenever we, or any of our subsidiaries, enter into transactions with third parties that are denominated in currencies other than our functional currency. Intercompany transactions between entities that use different functional currencies also expose us to foreign currency risk. Gross margins of products we manufacture and sell in currencies other than the U.S. dollar are also affected by foreign currency exchange rate movements. In addition, a portion of our earnings is generated by our foreign subsidiaries, whose functional currencies are other than the U.S. dollar, and our revenues and earnings could be materially impacted by movements in foreign currency exchange rates upon the translation of the earnings of such subsidiaries into the U.S. dollar. If the functional currency for AMSC Austria and AMSC China were to fluctuate by 10% the net effect would be immaterial to our consolidated financial statements.

The impact of foreign currency transaction and translation activities on net loss for the three and nine months ended December 31, 2015 were losses of less than \$0.1 million and \$1.0 million, respectively. The impact of foreign currency transaction and translation activities on net loss for the three and nine months ended December 31, 2014 were gains of \$0.5 million and \$1.6 million, respectively.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2015. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation of our disclosure controls and procedures as of December 31, 2015, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On September 13, 2011, we commenced a series of legal actions in China against Sinovel. Our Chinese subsidiary, Suzhou AMSC Superconductor Co. Ltd., filed a claim for arbitration with the Beijing Arbitration Commission in accordance with the terms of our supply contracts with Sinovel. The case is captioned (2011) Jing Zhong An Zi No. 0963. On March 31, 2011, Sinovel refused to accept contracted shipments of 1.5 MW and 3 MW wind turbine core electrical components and spare parts that we were prepared to deliver. We allege that these actions constitute material breaches of our contracts because Sinovel did not give us notice that it intended to delay deliveries as required under the contracts. Moreover, we allege that Sinovel has refused to pay past due amounts for prior shipments of core electrical components and spare parts. We are seeking compensation for past product shipments and retention (including interest) in the amount of approximately RMB 485 million (\$76 million) due to Sinovel’s breaches of our contracts. We are also seeking specific performance of our existing contracts as well as reimbursement of all costs and reasonable expenses with respect to the arbitration. The value of the undelivered components under the existing contracts, including the deliveries refused by Sinovel in March 2011, amounts to approximately RMB 4.6 billion (\$720 million).

On October 8, 2011, Sinovel filed with the Beijing Arbitration Commission an application under the caption (2011) Jing Zhong An Zi No. 0963, for a counterclaim against us for breach of the same contracts under which we

filed our original arbitration claim. Sinovel claimed, among other things, that the goods supplied by us do not conform to the standards specified in the contracts and claimed damages in the amount of approximately RMB 370 million (\$58 million). On October 17, 2011, Sinovel filed with the Beijing Arbitration Commission a request for change of counterclaim to increase its damage claim to approximately RMB 1 billion (\$157 million). On December 22, 2011, Sinovel filed with the Beijing Arbitration Commission an additional request for change of counterclaim to increase its damages claim to approximately RMB 1.2 billion (\$190 million). On February 27, 2012, Sinovel filed with the Beijing Arbitration Commission an application under the caption (2012) Jing Zhong An Zi No. 0157, against us for breach of the same contracts under which we filed our original arbitration claim. Sinovel claimed, among other things, that the goods supplied by us do not conform to the standards specified in the contracts and claimed damages in the amount of approximately RMB 105 million (\$17 million). We believe that Sinovel's claims are without merit and we intend to defend these actions vigorously. Since the proceedings in this matter are still in the early technical review phase, we cannot reasonably estimate possible losses or range of losses at this time.

We also submitted a civil action application to the Beijing No. 1 Intermediate People's Court under the caption (2011) Yi Zhong Min Chu Zi No. 15524, against Sinovel for software copyright infringement on September 13, 2011. The application alleges Sinovel's unauthorized use of portions of our wind turbine control software source code developed for Sinovel's 1.5MW wind turbines and the binary code, or upper layer, of our software for the PM3000 power converters in 1.5MW wind turbines. In July 2011, a former employee of our Austrian subsidiary was arrested in Austria on charges of economic espionage and fraudulent manipulation of data. In September 2011, the former employee pled guilty to the charges, and was imprisoned. As a result of our internal investigation and a criminal investigation conducted by Austrian authorities, we believe that this former employee was contracted by Sinovel through an intermediary while employed by us and improperly obtained and transferred to Sinovel portions of our wind turbine control software source code developed for Sinovel's 1.5MW wind turbines. Moreover, we believe the former employee illegally used source code to develop for Sinovel a software modification to circumvent the encryption and remove technical protection measures on the PM3000 power converters in 1.5MW wind turbines in the field. We are seeking a cease and desist order with respect to the unauthorized copying, installation and use of our software, monetary damages of approximately RMB 38 million (\$6 million) for our economic losses and reimbursement of all costs and reasonable expenses. The Beijing No. 1 Intermediate People's Court accepted the case, which was necessary in order for the case to proceed. In November 2011, Sinovel filed a motion to remove this case from the Beijing No. 1 Intermediate People's Court and to transfer the matter to the Beijing Arbitration Commission. On February 14, 2012, the court denied Sinovel's motion to remove the case. On February 21, 2012, Sinovel filed an appeal of the Beijing No. 1 Intermediate People's Court decision to the Beijing Higher People's Court. On April 25, 2012, the Beijing Higher People's Court issued a final Civil Ruling which supports the Beijing No.1 Intermediate People's Court's civil ruling and rejected Sinovel's appeal. Sinovel filed an appeal of the Beijing Higher People's Court's decision with China's Supreme People's Court. A hearing regarding this appeal was held at the Chinese Supreme People's Court on October 26, 2012. On November 23, 2012, China's Supreme People's Court issued a Civil Ruling, holding that (1) it will conduct a re-trial of Sinovel's appeal, and (2) the lower court's decision will be stayed pending the re-trial. China's Supreme People's Court conducted a re-trial of Sinovel's appeal on May 29, 2013. On January 26, 2014, the Supreme People's Court ruled to uphold the Beijing Higher People's Court ruling that the dispute shall be heard by the court. On September 15, 2014, the Beijing No. 1 Intermediate People's Court held its first substantive hearing in the Beijing case. At the hearing, the parties presented evidence, reviewed claims, and answered questions from the court. On April 24, 2015, we received notification from the Beijing No. 1 Intermediate People's Court that it dismissed the case for what it cited was a lack of evidence. On May 6, 2015, we filed an appeal of the Beijing No. 1 Intermediate People's Court decision to dismiss the case with the Beijing Higher People's Court. On September 8, 2015, the Beijing Higher People's Court held its first substantive hearing on our appeal of the Beijing No. 1 Intermediate People's Court's dismissal of the case. At the hearing, the parties presented evidence and answered questions from the court. We are awaiting a decision from the Beijing Higher People's Court.

We submitted a civil action application to the Beijing Higher People's Court against Sinovel and certain of its employees for trade secret infringement on September 13, 2011 under the caption (2011) Gao Min Chu Zi No. 4193. The application alleges the defendants' unauthorized use of portions of our wind turbine control software source code developed for Sinovel's 1.5MW wind turbines as described above with respect to the Copyright Action. We are seeking monetary damages of RMB 2.9 billion (\$453 million) for the trade secret infringement as well as reimbursement of all costs and reasonable expenses. The Beijing Higher People's Court has accepted the case, which was necessary in order for the case to proceed. On December 22, 2011 the Beijing Higher People's Court transferred the case to the Beijing No. 1 Intermediate People's Court under the caption (2011) Gao Min Chu Zi No. 4193. On June 7, 2012, we received an Acceptance Notice from the Beijing No.1 Intermediate People's Court under the caption (2012) Yi Zhong Min Chu Zi No.6833. In August 2012, Sinovel filed a motion to remove this case from the Beijing No. 1 Intermediate People's Court and transfer the matter to the Beijing Arbitration Commission. On February 24, 2014, the Beijing No. 1 Intermediate People's Court denied Sinovel's motion to remove and transfer the case. On March 13, 2014, Sinovel filed an appeal of the Beijing No. 1 Intermediate People's Court decision to the Beijing Higher People's Court. On August 7, 2014, the Beijing Higher People's Court upheld the Beijing No.1 Intermediate Court's decision and rejected Sinovel's appeal regarding the jurisdiction opposition. The Beijing No. 1 Intermediate Court held the first substantive hearing on May 11, 2015. On June 15, 2015, we submitted a request for the

withdrawal of our complaint to the Beijing No. 1 Intermediate Court. On June 16, 2015, the Beijing No. 1 Intermediate Court granted our request. We immediately filed a civil action application to the Beijing Intellectual Property Court against the same parties and seeking the same amount of monetary damages for trade secret infringement on June 16, 2015 under the caption (2015) Jin Zhi Min Chu Zi No. 1135. On January 18, 2016, the Beijing Intellectual Property Court held its first substantive hearing on our trade secret infringement case. At the hearing, the parties presented evidence, reviewed claims and answered questions from the court. We are awaiting a decision from the Beijing Intellectual Property Court.

On September 16, 2011, we filed a civil copyright infringement complaint in the Hainan Province No. 1 Intermediate People's Court against Dalian Guotong Electric Co. Ltd. ("Guotong"), a supplier of power converter products to Sinovel, and Huaneng Hainan Power, Inc. ("Huaneng"), a wind farm operator that has purchased Sinovel wind turbines containing Guotong power converter products. The case is captioned (2011) Hainan Yi Zhong Min Chu Zi No. 62. The application alleges that our PM1000 converters in certain Sinovel wind turbines have been replaced by converters produced by Guotong. Because the Guotong converters are being used in wind turbines containing our wind turbine control software, we believe that our copyrighted software is being infringed. We are seeking a cease and desist order with respect to the unauthorized use of our software, monetary damages of RMB 1.2 million (\$0.2 million) for our economic losses (with respect to Guotong only) and reimbursement of all costs and reasonable expenses. The court has accepted the case, which was necessary in order for the case to proceed. In addition, upon the request of the defendant Huaneng, Sinovel has been added by the court to this case as a defendant and Huaneng has been released from this case. In December 2011, Sinovel filed a jurisdiction opposition motion requesting dismissal by the Hainan Province No. 1 Intermediate People's Court, saying the case should be governed by the Beijing Arbitration Commission. On February 3, 2012, we received the Civil Ruling from the court, which granted Sinovel's motion, and dismissed the entire case. We appealed the court's ruling to the Hainan Higher Court, which on April 5, 2012 upheld the decision of the Hainan Province No. 1 Intermediate People's Court. On April 9, 2012, we filed an appeal of the Hainan Higher Court's decision with China's Supreme People's Court. China's Supreme People's Court accepted the appeal on May 23, 2012. The case is captioned, (2012) Min Shen Zi No. 630. On December 20, 2012, China's Supreme People's Court issued a Civil ruling, holding that (1) it will conduct a re-trial of our appeal and (2) the lower court's decision will be stayed pending the re-trial. China's Supreme People's Court conducted a re-trial of our appeal on May 29, 2013. On January 26, 2014, the Supreme People's Court revoked Hainan No. 1 Intermediate People's Court and Hainan Higher People's Court rulings and ruled that the case shall be heard by the Hainan No. 1 Intermediate People's Court. The Hainan No. 1 Intermediate People's Court accepted the case under the caption (2014) Hainan Yi Zhong Min San Chu Zi No. 1. On October 21, 2014, the Hainan No. 1 Intermediate People's Court changed the caption of this case to (2014) Hainan Yi Zhong Zhi Min Chu Zi No. 2. On November 18, 2014, the Hainan No. 1 Intermediate People's Court held its first substantive hearing in the Hainan case. At the hearing, the parties presented evidence, reviewed claims, and answered questions from the court. On June 3, 2015, we received notification from the Hainan No. 1 Intermediate People's Court that it dismissed the case for what it cited was a lack of evidence. On June 18, 2015 we filed an appeal of the Hainan No. 1 Intermediate People's Court decision to dismiss the case with the Hainan Higher People's Court. On August 20, 2015, the Hainan Higher People's Court accepted the appeal under the caption (2015) QiongZhi Min Zhong Zi No. 6. On November 26, 2015, the Hainan Higher People's Court held its first substantive hearing on our appeal of the Hainan No. 1 Intermediate People's Court's dismissal of the case. At the hearing, the parties presented evidence and answered questions from the court. We are awaiting a decision from the Hainan Higher People's Court.

ITEM 1A. RISK FACTORS

None

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

See the Exhibit Index on the page immediately preceding the exhibits for a list of exhibits filed as part of this quarterly report, which Exhibit Index is incorporated herein by this reference.

SIGNATURE

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

AMERICAN SUPERCONDUCTOR CORPORATION

Date: February 9, 2016 By: /s/ David A. Henry

David A. Henry

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

EXHIBIT INDEX

| Exhibit Number | Exhibit Description | Incorporated by Reference | | |
|-------------------|---|---------------------------|------------------------|-------------------|
| | | File Form No. | Filing Exhibit Date | Filed Herewith |
| +10.1 | Supply Contract, dated December 16, 2015, by and between Inox Wind Limited and American Superconductor Corporation. | | | * |
| +10.2 | Technology License Agreement, dated December 16, 2015, by and between AMSC Austria GMBH, American Superconductor Corporation, and Inox Wind Limited. | | | * |
| +10.3 | Amendment No. 2 to Supply Contract (dated June 2, 2014), by and between Inox Wind Limited and American Superconductor Corporation, entered into on December 14, 2015. | | | * |
| +10.4 | Amendment No. 3 to Supply Contract (dated August 15, 2014), by and between Inox Wind Limited and American Superconductor Corporation, entered into on November 19, 2015. | | | * |
| 31.1 | Chief Executive Officer—Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | * |
| 31.2 | Chief Financial Officer—Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | * |
| 32.1 | Chief Executive Officer—Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | ** |
| 32.2 | Chief Financial Officer—Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted 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 Taxonomy Calculation Linkbase Document. *** | | | |

101.DEF XBRL Definition Linkbase Document. ***

101.LAB XBRL Taxonomy Label Linkbase Document. ***

101.PRE XBRL Taxonomy Presentation Linkbase Document. ***

* Filed herewith

** Furnished herewith

*** Submitted electronically herewith

+ Confidential treatment has been requested with respect to certain portions of this exhibit, which portions have been filed separately with the Securities and Exchange Commission.

39

Attached as Exhibits 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheet as of December 31, 2015 and March 31, 2015 (ii) Condensed Statements of Operations and Income for the three and nine months ended December 31, 2015 and 2014, (iii) Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and nine months ended December 31, 2015 and 2014, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2015 and 2014, and (v) Notes to Condensed Consolidated Financial Statements.