AMERICAN SUPERCONDUCTOR CORP /DE/
Form 10-K
May 31, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2016

OR

¨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 000-19672

American Superconductor Corporation

(Exact Name of Registrant as Specified in Its Charter)

Delaware	04-2959321
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)
64 Jackson Road	
Devens, Massachusetts	01434
(Address of Principal Executive Offices)	(Zip Code)

Registrant’s telephone number, including area code:

(978) 842-3000

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

Common Stock, $0.01 par value, NASDAQ Global Select Market

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

None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405) is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant on September 30, 2015, based on the closing price of the shares of Common Stock on the Nasdaq Global Select Market on that date ($4.33 per share) was $50.2 million.

Number of shares outstanding of the registrant's Common Stock, as of May 25, 2016 was 14,045,836.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the annual meeting of stockholders scheduled to be held on July 29, 2016, to be filed with the Securities and Exchange Commission (the "SEC"), are incorporated by reference in answer to Part III of this Form 10-K.

AMERICAN SUPERCONDUCTOR CORPORATION

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This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Any statements in this Annual Report that relate to future events or conditions, including without limitation, the statements in Part I, "Item 1A. Risk Factors" and in Part II under "Item 7. 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 the important factors discussed under the caption "Risk Factors" in Part 1. Item 1A of this Form 10-K for the fiscal year ended March 31, 2016, which 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 Annual Report on Form 10-K. 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 Annual Report on Form 10-K.

PART I

Item 1. BUSINESS

Overview

American Superconductor Corporation (together with its subsidiaries, "AMSC®" or the "Company") 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, industrial facilities, 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 company has designed wind turbines for or licensed wind turbine designs to more than 10 wind turbine manufacturing customers including Inox Wind Limited ("Inox") in India. We have also served over 100 customers in the grid market since our inception, including American Electric Power, Long Island Power Authority and Keys Energy Services in the United States, EDF Group in France, Korean Electric Power Corporation in Korea, Scottish & Southern Energy in the United Kingdom, Consolidated Power Projects (Pty) Ltd in South Africa, and Ergon Energy in Australia. We serve customers globally through a localized sales and field service presence in our core target markets. Additionally, our sales personnel in the United States are supported by manufacturers' representatives.

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 and national levels, including renewable portfolio standards, tax incentives, and international treaties. We estimate that today's total annual addressable global market for our wind and grid solutions is approximately $11.0 billion.

We segment our operations into 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.

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.

Competitive strengths

We believe our competitive strengths position us well to execute on our growth plans in the markets we serve.

- Unique Solutions for the Wind and Grid Markets. We believe we are the only company in the world that provides wind turbine manufacturers with an integrated approach of wind turbine design and engineering, customer support services and power electronics and control systems. We also believe we are the only company in the world that is able to provide transmission planning services, grid interconnection and voltage control systems as well as superconductor-based transmission and distribution systems for power grid operators. This unique scope of supply provides us with greater insight into our customers' evolving needs and greater cross-selling opportunities.

- Differentiated Technologies. Our PowerModule™ power converters are based on proprietary software and hardware combinations and are used in a broad array of applications, including our D-VAR® grid interconnection and voltage control systems, as well as our wind turbine electrical control systems. Our proprietary Amperium® superconductor wire was engineered to allow us to tailor the product via laminations to meet the electrical and mechanical performance requirements of widely varying end-use applications, including power cables and fault current limiters for the Grid market.
- Highly Scalable, Low-Cost Manufacturing Platform. We can increase the production of our proprietary power electronics and superconductor technologies at costs that we believe are low relative to our competitors. Our proprietary manufacturing technique for Amperium wires is modular in nature, which allows us to expand manufacturing capacity at a relatively low incremental cost.
- Robust Patent Position and Engineering Expertise. As of March 31, 2016, we owned almost 400 patents and patent applications worldwide (including international counterparts to U.S. patents), and had rights through exclusive and non-exclusive licenses to more than 200 additional patents and patent applications worldwide. We believe our technology and manufacturing knowledge base, customer and product expertise and patent portfolio provide a strong competitive position.

Strategy

Building on these competitive strengths, we plan to focus on driving revenue growth and enhancing our operating results through the objectives defined below.

- Provide Solutions from Power Generation to Delivery. From the generation source to the distribution system, we focus on providing best-in-class engineering, support services, technologies and solutions that make the world's power supplies smarter, cleaner and stronger.
- Focus on "Megawatt-Scale" Power Offerings. Our research, product development, and sales efforts focus on megawatt-scale offerings ranging from designs of power electronics for large wind turbine platforms to systems that stabilize power flows, integrate renewable power into the grid and carry power to and from transmission and distribution substations.
- Pursue Emerging Overseas Markets and Serve Key Markets Locally. We focus our sales efforts on overseas markets that are investing aggressively in renewable energy and power grid projects, and we have been particularly successful in targeting key Asian markets, including India and China. As part of our strategy, we serve our key target markets with local sales and field service personnel, which enables us to understand market dynamics and more effectively anticipate customer needs while also reducing response time. We currently serve target markets such as Australia, China, India, South Africa, the United Kingdom, and the United States.
- Product Innovation. We have a strong record of developing unique solutions for megawatt-scale power applications and will continue our focus on investing in innovation. Recently, our product development efforts have included our Resilient Electric Grid ("REG") system for the electricity grid and Ship Protection Systems for the U.S. Navy.

Market opportunities

Our solutions address two substantial global demands:

- the demand for renewable sources of electricity, and
- the demand for modernized, smart power grid infrastructure that alleviates capacity constraints and improves electricity reliability, security, and efficiency.

Wind market overview

According to GlobalData, a research firm, nearly 55 Gigawatts (GW) of wind generation capacity were added worldwide in 2015, as compared to 52 GW in 2014. GlobalData anticipates that more than 56 GW of additional capacity will be added in 2016.

Several factors are expected to drive the future growth in the wind power market, including substantial government incentives and mandates that have been established globally, technological improvements, turbine cost reductions, the

development of the offshore wind market, and increasing cost competitiveness with existing power generation technologies. Technological advances, declining turbine production cost and fluctuating prices for some fossil fuels continue to increase the competitiveness of wind versus traditional power generation technologies.

Our solutions for the wind market

We address the challenges of the wind power market by designing and engineering wind turbines, providing extensive support services to wind turbine manufacturers and manufacturing and selling critical components for wind turbines.

- Electrical Control Systems. We provide full electrical control systems ("ECS") or a subset of those systems ("core electrical components") to manufacturers of wind turbines designed by us. Our ECS regulate voltage, control power flows and maximize wind turbine efficiency, among other functions. To date, we have shipped enough core electrical components and complete ECS to power nearly 16,000 Megawatts ("MW") of wind power. We believe our ECS represent approximately 5-10% of a wind turbine's bill of materials. We believe that the total addressable market for ECS was approximately $3.2 billion annually in 2015.
    - Wind Turbine Designs. We design and develop entire state-of-the-art onshore and offshore wind turbines with power ratings of 2 MWs and higher for manufacturers who are in the business of producing wind turbines or who plan to enter the business of manufacturing wind turbines. These customers typically pay us licensing fees, and in some cases royalties for wind turbine designs, and purchase from us the core electrical components or complete electrical control systems needed to operate the wind turbines.
- Customer Support Services. We provide extensive customer support services to wind turbine manufacturers. These services range from providing designs for customers' wind turbine manufacturing plants to establishing and localizing their supply chains and training their employees on proper wind turbine installation and maintenance. We believe these services enable customers to accelerate their entry into the wind turbine manufacturing market and lower the cost of their wind turbine platforms.

Our approach to the wind energy markets allows our customers to use our world-class turbine engineering capabilities while minimizing their research and development costs. These services and our advanced electrical control systems provide our customers with the ability to produce standardized or next-generation wind turbines at scale for their local market or the global market quickly and cost-effectively. Our team of highly experienced engineers works with clients to customize turbine designs specifically tailored to local markets while providing ongoing access to field services support and future technological advances.

Grid market overview

It is widely believed that the electricity grid in the U.S. is in need of modernization through a technology upgrade if it is to maintain reliability and adapt to the changing market needs. In fact, a recent report written by The White House and titled, "Economic Benefits of increasing Electric Grid Resilience in Weather Outages" found that economic damage from weather-related power outages averaged between $18 and $33 billion per year between 2003 and 2012 – and went as high as $75 billion in 2008 and $52 billion in 2012, as a result of damage caused by Hurricanes Ike and Sandy, respectively. Furthermore, the electric grid is also vulnerable to equipment failure, acts of terror, and threats to cyber security. Recent events and the reliance of safety, security, and economy on the electricity grid have prompted broad recognition worldwide of the need to modernize and enhance the reliability and security of power grids.

Power grid operators worldwide face various challenges, including:

- Stability. Power grid operators are confronting power quality and stability issues arising from intermittent renewable energy sources and from the capacity limitations of transmission and overhead distribution lines and underground cables.
- Reliability. Traditional transmission lines and cables often reach their reliable voltage stability limit well below their thermal threshold. Driving more power through a power grid when some lines and cables are operating above their voltage stability limit during times of peak demand can cause either unacceptably low voltage in the power grid (a brownout) or risk of a sudden, uncontrollable voltage collapse (a blackout).
- Capacity. The traditional way to enable increases in power grid capacity without losing voltage stability is to install more overhead power lines and underground cables. However, permitting new transmission and distribution lines can take 10 years or more due to various public policy issues, such as environmental, aesthetic, and health concerns.

In urban and metropolitan areas, installing additional conventional underground copper cables is similarly challenging, since many existing underground corridors carrying power distribution cables are already filled to their physical capacity and cannot accommodate any additional conventional cables. In addition, adding new conduits requires excavation to expand existing corridors or create new corridors, which are costly and disruptive undertakings.

- Efficiency. Most overhead lines and underground cables use traditional conductors such as copper and aluminum, which lose power due to electrical resistance. At transmission voltage, electrical losses average about 7% in the United States and other developed nations, but can exceed 20% in some locations due to the distance of the line, quality of conductor, and the power grid's architecture and characteristics, among other factors.

- Security. Catastrophic equipment failures caused by aging equipment, physical and cyber threats, and weather related disasters can leave entire sections of an urban environment without power for hours or days. It can be difficult to recover from extended power outages in urban load centers, worsening situations where the personal safety of residents and the economic health of business are threatened.

Our solutions for the grid market

We address these challenges in the Grid market by providing services and solutions designed to increase the power grid's capacity, reliability, security and efficiency. We also provide advanced ship protection equipment for the U.S Navy in this segment as each Navy ship can be thought of as having its own power grid. Our solutions include:

- Superconductor Wire and Applications. Conventional conductors of electricity, such as aluminum and copper wire, lose energy due to resistance. Using a compound of yttrium barium copper oxide ("YBCO"), we manufacture and provide high-temperature superconductor ("HTS") wire that can conduct many times more electricity than conventional conductors with no power loss. We have developed full system solutions that we sell and expect to continue to sell directly to customers. This business model leverages our applications expertise, drives value beyond the wire and enables us to recognize revenue and take ownership over the marketing and sales of the full systems. These systems include:
  - Resilient Electric Grid Systems. Our REG system has two primary applications that increase the reliability and the capacity of the urban infrastructure. For applications focused on reliability improvement, the REG cable is best used in a "ring" or "loop" configuration to interconnect nearby urban substations. This enables urban utilities to share transmission connections and excess station capacity, while controlling the high fault currents that naturally result from such interconnections, providing protection against the adverse effects that follow the loss of critical substation facilities in urban areas. For applications focused on capacity improvement, the REG cable can be used in a "branch" configuration. In this application, the REG cable connects an existing large urban substation with a new, much smaller, and more simplified substation within the city at a lower cost. The smaller urban substation does not need large power transformers and takes up much less space, thereby significantly reducing real estate, construction, and other related costs in the urban area. The key component to the REG system is a breakthrough cable system that combines very high power handling capacity with fault current limiting characteristics, features that are attributable to our proprietary HTS wire. Assuming all urban substations in major cities in the U.S. could be connected with our REG system, we believe the total annual addressable market is approximately $5.7 billion.
  - Ship Protection Systems. The primary focus of our ship protection systems ("SPS") has been degaussing systems. These systems reduce a Naval ship's magnetic signature, making it much more difficult for a mine to detect and damage a ship. Traditionally made of heavy copper wire, degaussing is required on all Navy combat ships. Our HTS advanced degaussing system is lightweight, compact, and often outperforms its conventional counterpart. This HTS system is estimated to enable a 50 to 80 percent reduction in total degaussing system weight, offering significant potential for fuel savings or options to add different payloads. The core components of a degaussing system are transferable to other applications being targeted for ship implementation. We are also continuing to work on expanding HTS technology into the fleet through a variety of applications for power, propulsion, and protection equipment. We estimate that the total addressable market for HTS-based, ship protection systems for the U.S. Navy fleet to be between $70.0 million and $120.0 million per year between the years 2020 and 2025.
- FACTS Systems. Flexible alternating current transmission system – or FACTS – is a system that consists of power electronics and other static components used for controlling power flow and voltage in the AC transmission system. FACTS products aim to increase controllability and power transferability of a network, which allows more effective utilization of existing assets, and reduces the need for new transmission lines and facilities to increase electricity availability. Our FACTS sales process begins with our group of experienced transmission planners working with power grid operators, renewable energy developers, and industrial system operators to identify power grid constraints and determine how our solutions might improve network performance. These services often lead to sales of grid interconnection solutions for wind farms and solar power plants, power quality systems for utilities and heavy industrial operations and transmission and distribution cable systems. Our transmission planners work with our customers on the following solutions:
  - o

D-VAR® Systems. The power that flows through AC networks comprises both real power, measured in watts, and reactive power, measured in Volt Amp Reactive ("VARs"). In simple terms, reactive power is required to support voltage in the power network. D-VAR systems can provide the reactive power needed to stabilize voltage on the grid. These systems also can be used to connect wind farms and solar power plants to the power grid seamlessly as well as to protect certain industrial facilities against voltage swells and sags. GlobalData and AMSC estimate the market for FACTS systems such as D-VAR was more than $2.0 billion in 2015.

- D-SVC Systems. Our D-SVC systems are a cost-effective solution that allow large industrial loads to operate on the AC power system while minimizing the impacts of voltage sags and flicker problems, and also provides dynamic, distribution level voltage regulation and power factor control solutions for utilities. Our D-SVC system automatically applies VARs on a cycle-by-cycle basis to maintain steady line voltages adjacent to large inductive loads such as motors, welders, arc furnaces and pipeline pumping stations.

· We are also offering full system solutions through a collaboration with industry leader Nexans:

- Stand-alone Fault Current Limiters. Used in substations, superconductor fault current limiters ("SFCLs") act as surge protectors for the power grid. SFCLs can help protect the grid by reducing the destructive nature of faults, extending the life of existing substation equipment and allowing utilities to defer or eliminate equipment replacements or upgrades. Together with Nexans, we offer SFCLs for medium voltage alternating current ("AC") networks.

Core Technologies

Superconductors

Our second generation ("2G") HTS wire technology helps us address the smart grid infrastructure market opportunity by providing components and solutions designed to increase the power grid's capacity, reliability, security and efficiency. Our wire, known as Amperium wire, conducts electricity with zero resistance below about -297 degrees Fahrenheit. Additionally, our 2G wire has the ability to switch to a resistive state whenever a fault current exceeds a predetermined value. This characteristic is a key enabler to our REG system. The technology can be used in many applications including electricity transmission cables, superconducting generators, voltage regulators and degaussing systems for naval vessels. Superconductor power cables, which are a class of high-capacity, environmentally-benign, and easy-to-install transmission and distribution cables, address power grid capacity issues by increasing the thermal limit of existing or new corridors. Superconductor power cables are cylindrically shaped systems consisting of HTS wires (which conduct electricity) surrounded by electrical insulation encased in a metal or polymeric jacket.

Currently, power cables are made primarily using copper wires. Power cables incorporating our Amperium wire are able to carry up to 10 times the electrical current of copper cables of the same diameter. These cable systems also bring efficiency advantages. Traditional cable systems heat up due to the electrical resistance of copper, causing electrical losses. Electrical losses at transmission voltage average about 7% in the United States and other developed nations, but can exceed 20% in some locations due to the distance of the line and the power grid's architecture and characteristics, among other factors. Conversely, HTS materials can carry direct current ("DC") with 100% efficiency and AC with nearly 100% efficiency when they are cooled below a critical temperature. As a result, AC HTS power cables lose significantly less power to resistive heating than copper cables, and DC HTS power cables have no energy losses due to resistive heating.

PowerModule Power Converters

Our family of PowerModule power electronic converters incorporates power semiconductor devices that switch, control and move large amounts of power faster and with far less disruption than the electromechanical switches historically used. While today our PowerModule systems are used primarily in our ECS and D-VAR systems, they also have been incorporated into electric motor drives, distributed and dispersed generation devices (micro-turbines, fuel cells, and photovoltaics), power quality solutions, batteries, and flywheel-based uninterruptible power supplies.

Research and Development

Our research and development expenses were $12.3 million, $11.9 million and $12.2 million in fiscal 2015, fiscal 2014 and fiscal 2013, respectively.

Customers

We have designed wind turbines for or licensed wind turbine designs to more than 10 wind turbine manufacturing customers including Inox in India. We have also served over 100 customers in the grid market since our inception, including American Electric Power, Long Island Power Authority and Keys Energy Services in the United States, EDF Group in France, Korean Electric Power Corporation in Korea, Scottish & Southern Energy in the United Kingdom, Consolidated Power Projects (Pty) Ltd in South Africa, and Ergon Energy in Australia. We serve customers globally through a localized sales and field service presence in our core target markets.

Facilities and manufacturing

Our primary facilities and their primary functions are as follows:

- Devens, Massachusetts — Corporate headquarters, superconductors research, development and manufacturing, FACTS product engineering and manufacturing
- New Berlin, Wisconsin — Power electronics and controls research and development
- Klagenfurt, Austria — Wind turbine engineering
- Suzhou, China — Electrical Control System and PowerModule power converter manufacturing for the Chinese market
- Timisoara, Romania – Electrical Control System and PowerModule power converter manufacturing for all other markets

Our global footprint also includes sales and field service offices in Australia, Germany, India, Korea and the United Kingdom.

Sales and marketing

Our strategy is to serve customers locally in our core target markets through a direct sales force operating out of sales offices worldwide. In addition, we utilize manufacturers' sales representatives in the United States to market our products to utilities in North America. The sales force also leverages business development staff for our various offerings as well as our team of wind turbine engineers and power grid transmission planners, all of whom help to ensure that we have an in-depth understanding of customer needs and provide cost-effective solutions for those needs.

In fiscal 2015, Inox accounted for 62% of our total revenues, and no other customer accounted for more than 10% of our total revenues. In fiscal 2014, Inox accounted for 56% of our total revenues, and no other customer accounted for more than 10% of our total revenues. In fiscal 2013, Inox and Beijing JINGCHENG New Energy accounted for 31% and 18%, respectively, of our total revenues.

The portion of total revenue recognized from customers located outside the United States was 85%, 86% and 87% for fiscal 2015, 2014 and 2013, respectively. Of the revenue recognized from customers outside the United States, we recognized 73%, 65% and 36% from customers in India for fiscal 2015, 2014 and 2013, respectively, and we recognized 10%, 17% and 34% from customers in China in fiscal 2015, 2014 and 2013, respectively. For additional financial information, see the notes to consolidated financial statements included herein, including Note 17, "Business Segments".

Our foreign operations, particularly our operations in China, India and other emerging markets, expose us to a variety of risks. For a discussion of additional risks associated with our foreign operations, see Item 1A, "Risk Factors – We have operations in and that depend on sales in emerging markets, including China and India, and global conditions could negatively affect our operating results or limit our ability to expand our operations outside of these countries. Changes in China's or India's political, social, regulatory and economic environment may affect our financial performance."

Backlog

We had backlog at March 31, 2016 of approximately $88.9 million from government and commercial customers, compared to $40.7 million at March 31, 2015. Current backlog represents the value of contracts and purchase orders received for which delivery is expected during the next twelve months based on contractually agreed-upon terms. The year over year increase in backlog is driven primarily by the larger orders received from Inox in fiscal 2015, as well as stronger orders recently for our D-VAR products. Of our reported twelve month backlog at March 31, 2016, $58.0 million pertains to the supply contract with Inox entered into in December 2015, shipments under which are expected to commence once Inox makes the required $2.0 advance payment under the supply contract. See Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operation", for further discussion of the

strategic agreements entered into with Inox.

Competition

We face competition in various aspects of our technology and product development. We believe that competitive performance in the marketplace depends upon several factors, including technical innovation, range of products and services, product quality and reliability, customer service and technical support.

Wind

We face competition from companies offering power electronic converters for use in applications for which we expect to sell our PowerModule products. These companies include ABB, Hopewind, Semikron, Shinergy, Vacon, and Xantrex (a subsidiary of Schneider Electric).

We face competition from companies offering various types of wind turbine electrical system components, which include ABB, Ingeteam, Mita-Teknik and Woodward. We also face indirect competition in the wind energy market from global manufacturers of wind turbines, such as Gamesa, General Electric, Suzlon, and Vestas.

We face competition for the supply of wind turbine engineering design services from design engineering firms such as GL Garrad Hassan, and from licensors of wind turbine systems such as Aerodyn.

Grid

We face competition from other companies offering FACTS systems similar to our D-VAR products. These include static var compensators ("SVCs") from ABB, General Electric, AREVA, Mitsubishi Electric, and Siemens; adaptive VAR compensators and STATCOMs produced by ABB, Siemens, and S&C Electric; Dynamic voltage restorers ("DVRs") produced by companies such as ABB and S&C Electric; and flywheels and battery-based uninterruptable power supply ("UPS") systems offered by various companies around the world.

We face competition both from suppliers of traditional utility solutions and from companies who are developing HTS wires. We also face competition for our Amperium wire from a number of companies in the United States and abroad. These include Superconductor Technologies and Superpower (a subsidiary of Furukawa) in the United States; Fujikura and Sumitomo in Japan; SuNAM in South Korea; BASF Corporation in Europe ("BASF"), Innova and Shanghai Creative Superconductor in China; and SuperOx in Russia. With our HTS-based REG product, we are offering a new approach that provides alternatives to utilities for power system design. Therefore, we believe that we compete with traditional approaches such as new full sized substations, overhead and underground transmission, and urban power transformers.

We believe we are currently the only company that can offer HTS-based SPS products that have been fully qualified for use aboard Navy surface combatants. Therefore, the primary competition for our SPS products is currently coming from defense contractors that provide the copper-based systems that our lighter, more efficient HTS versions have been developed to replace. Companies such as L3, Excelis, Raytheon and Textron have the bulk of the copper-based business today. However, over time, as the HTS-based SPS proliferate to the fleet, companies that have the capability to manufacture and/or package HTS wire into robust, turn-key systems will likely attempt to duplicate our products, and thus additional competition is expected from more traditional HTS competitors such as those listed above.

Many of our competitors have substantially greater financial resources, research and development, manufacturing and marketing capabilities than we do. In addition, as our target markets develop, other large industrial companies may enter these fields and compete with us.

Patents, licenses and trade secrets

Patent Background

An important part of our business strategy is to develop a strong worldwide patent position in all of our technology areas. Our intellectual property ("IP") portfolio includes both patents we own and patents we license from others. We devote substantial resources to building a strong patent position. As of March 31, 2016, we owned (either solely or jointly) 100 U.S. patents and 8 U.S. patent applications on file. We also hold licenses from third parties covering more

than 75 issued U.S. patents and patent applications. Together with the international counterparts of each of these patents and patent applications, we own almost 400 patents and patent applications worldwide, and have rights through exclusive and non-exclusive licenses to more than 200 additional patents and patent applications. We believe that our current patent position, together with our ability to obtain licenses from other parties to the extent necessary, will provide us with sufficient proprietary rights to develop and sell our products. However, for the reasons described below, we cannot assure you that this will be the case.

Despite the strength of our patent position, a number of U.S. and foreign patents and patent applications of third parties relate to our current products, to products we are developing, or to technology we are now using in the development or production of our products. We may need to acquire licenses to those patents, contest the scope or validity of those patents, or design around patented processes or applications as necessary. If companies holding patents or patent applications that we need to license are competitors, we believe the strength of our patent portfolio will significantly improve our ability to enter into license or cross-license arrangements with these companies. We have already successfully negotiated cross-licenses with several competitors. We may be required to obtain licenses to some patents and patent applications held by companies or other institutions, such as national laboratories or universities, not directly competing with us. Those organizations may not be interested in cross-licensing or, if willing to grant licenses, may charge unreasonable royalties. We have successfully obtained licenses related to HTS wire from a number of such organizations with royalties we consider reasonable. Based on historical experience, we expect that we will be able to obtain other necessary licenses on commercially reasonable terms. However, we cannot provide any assurance that we will be able to obtain all necessary licenses from competitors on commercially reasonable terms, or at all.

Failure to obtain all necessary patents, licenses and other IP rights upon reasonable terms could significantly reduce the scope of our business and have a material adverse effect on our results of operations. We do not now know the likelihood of successfully contesting the scope or validity of patents held by others. In any event, we could incur substantial costs in challenging the patents of other companies. Moreover, third parties could challenge some of our patents or patent applications, and we could incur substantial costs in defending the scope and validity of our own patents or patent applications whether or not a challenge is ultimately successful.

There are multiple foreign counter-part patents that continue to be exclusively licensed to AMSC that expire in fiscal year 2016.

Wind and Grid Patents

We have received patents and filed a significant number of additional patent applications on power quality and reliability systems, including our D-VAR products. Our products are covered by 60 patents and patents pending worldwide on both our systems and power converter products. The patents and applications focus on inventions that significantly improve product performance and reduce product costs, thereby providing a competitive advantage. One invention of note allows for a reduction in the number of power inverters required in the system by optimally running the inverters in overload mode, thereby significantly reducing overall system costs. Another important invention uses inverters to offset transients due to capacitor bank switching, which provides improved system performance.

Under our Windtec Solutions™ brand, we design a variety of wind turbine systems and license these designs, including expertise and patent rights, to third parties for an upfront fee, plus in some cases, future royalties. Our wind turbine designs are covered by more than 30 patents and patents pending worldwide on wind turbine technology. We have patent coverage on the unique design features of our blade pitch control system, which ensures optimal aerodynamic flow conditions on the turbine blades and improves system efficiency and performance. The pitch system includes a patented SafetyLOCK™ feature that causes the blades to rotate to a feathered position to prevent the rotor blades from spinning during a fault.

We recognize the importance of IP protection in China and believe that China is steadily moving toward recognizing and acting in accordance with international norms for IP. As such, we have incorporated China in our patent strategy for all of our various products. Nevertheless, we recognize that the risk of IP piracy is still higher in China than in most other industrialized countries, and so we are careful to limit the technology we provide through our product sales and other expansion plans in China. While we take the steps necessary to ensure the safety of our IP, we cannot provide any assurance that these measures will be fully successful. For example, see Part I, Item 3, “Legal Proceedings,” for more information regarding legal proceedings that we have undertaken against Sinovel Wind Group Co., Ltd (“Sinovel”) alleging the illegal use of our intellectual property.

HTS Patents

Since the discovery of high temperature superconductors in 1986, rapid technical advances have characterized the HTS industry, which in turn have resulted in a large number of patents, including overlapping patents, relating to superconductivity. As a result, the patent situation in the field of HTS technology and products is unusually complex. We have obtained licenses to patents and patent applications covering some HTS materials. We have acquired exclusive rights (through 2017) to a fundamental U.S. patent (U.S. 8,060,169 B1) covering 2G and similar HTS wire and applications. However, we may have to obtain additional licenses to HTS materials and, upon expiration of U.S. 8,060,169, to the materials covered by such patent.

We are focusing on the production of our Amperium wire, and we intend to continue to maintain a leadership position in 2G HTS wire through a combination of patents, licenses and proprietary expertise. In addition to our owned patents and patent applications in 2G HTS wire, we have obtained licenses from (i) MIT for the MOD process we use to deposit the YBCO layer, (ii) Alcatel-Lucent on the YBCO material, and (iii) the University of Tennessee/Battelle for the RABiTS® process we use for the substrate and buffer layers for this technology. During fiscal 2015, we entered into a Joint Development Agreement ("JDA") and licensed certain of our HTS manufacturing process technology to BASF. Under the JDA, we agreed with BASF to develop a new solutions-based deposition technology for the interface layers of our Amperium wire. Should this development effort be successful, any newly developed intellectual property as a result of the JDA will be owned by BASF, but we will have the right to incorporate this new technology into our manufacturing process on a royalty-free basis. Alternatively, we could purchase HTS wire directly from BASF should they decide to manufacture and sell HTS wire. If alternative processes become more promising in the future, we also expect to seek to develop a proprietary position in these alternative processes.

We have a significant number of patents and patents pending covering applications of HTS wire, such as HTS fault current limiting technology including our fault current limiting cable, HTS rotating machines and ship protection systems. Since the superconductor rotating machine and the fault current limiting cable applications are relatively new, we are building a particularly strong patent position in these areas. At present, we believe we have the world's broadest and most fundamental patent position in superconductor rotating machines technology. We have also filed a series of patents on our concept for our proprietary fault current limiting technology. However, there can be no assurance that that these patents will be sufficient to assure our freedom of action in these fields without further licensing from others. See Part I, Item 1A, "Risk Factors," for more information regarding the status of the commercialization of our Amperium wire products.

Trade Secrets

Some of the important technology used in our operations and products is not covered by any patent or patent application owned by or licensed to us. However, we take steps to maintain the confidentiality of this technology by requiring all employees and all consultants to sign confidentiality agreements and by limiting access to confidential information. We cannot provide any assurance that these measures will prevent the unauthorized disclosure or use of that information. For example, see Part I, Item 3, "Legal Proceedings," for more information regarding legal proceedings that we have filed against Sinovel alleging the illegal use of our intellectual property. In addition, we cannot provide any assurance that others, including our competitors, will not independently develop the same or comparable technology that is one of our trade secrets.

Employees

As of March 31, 2016, we employed 369 persons. None of our employees are represented by a labor union. Retaining our key employees is important for achieving our goals, and we are committed to developing a working environment that motivates and rewards our employees.

Available information

We file reports, proxy statements and other documents with the Securities and Exchange Commission (the "SEC"). You may read and copy any document we file at the SEC Headquarters at Office of Investor Education and Assistance, 100 F Street, NE, Washington, D.C. 20549. You should call 1-800-SEC-0330 for more information on the public reference room. Our SEC filings are also available to you on the SEC's Internet site at www.sec.gov.

Our internet address is www.amsc.com. We are not including the information contained in our website as part of, or incorporating it by reference into, this document. We make available, free of charge, through our web site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we

electronically file such materials with, or furnish such materials to, the SEC.

We intend to disclose on our website any amendments to, or waivers of, our Code of Business Conduct and Ethics that are required to be disclosed pursuant to the SEC or Nasdaq rules.

Executive officers of the registrant

The table and biographical summaries set forth below contain information with respect to our executive officers as of the date of this filing:

Name	Age	Position
Daniel P. McGahn	44	President, Chief Executive Officer and Director
David A. Henry	54	Executive Vice President, Chief Financial Officer and Treasurer
James F. Maguire	60	Executive Vice President, Operations

Daniel P. McGahn joined us in December 2006 and has been chief executive officer and a member of our board of directors since June 2011. He previously served as president and chief operating officer from December 2009 to June 2011, as senior vice president and general manager of our AMSC Superconductors business unit from April 2008 until December 2009, as vice president of our AMSC Superconductors business unit from March 2007 to April 2008 and as vice president of strategic planning and development from December 2006 to March 2007. From 2003 to 2006, Mr. McGahn served as executive vice president and chief marketing officer of Konarka Technologies. We believe Mr. McGahn's qualifications to sit on our board of directors include his extensive experience with our company, including serving as our president since 2009, experience in the power electronics industry and strategic planning expertise gained while working in senior management as a consultant for other public and private companies.

David A. Henry joined us in July 2007 and has been executive vice president, chief financial officer, and treasurer since May 2014, and previously served as senior vice president, chief financial officer, and treasurer from July 2007 to May 2014. He previously served as chief financial officer of AMIS Holdings, Inc., the parent company of AMI Semiconductor, from April 2004 to July 2007. For the previous seven years, Mr. Henry worked at Fairchild Semiconductor International as vice president finance, worldwide operations from November 2002 to April 2004 and as corporate controller from March 1997 to November 2002. He was appointed vice president, corporate controller at Fairchild Semiconductor International in August 1999.

James F. Maguire joined us in 1997 and has been executive vice president, operations since May 2013 and is responsible for overseeing AMSC's Wind and Grid business units as well as AMSC's global supply chain. He previously served as executive vice president, Gridtec Solutions from August 2011 to May 2013, as senior vice president, projects and engineering, from April 2010 to August 2011 and vice president, superconductor projects, from March 2007 to April 2010. Prior to joining AMSC, Mr. Maguire was founder and president of Applied Engineering Technologies, Ltd., a cryogenics product-based company.

Item 1A. RISK FACTORS

Risks Related to Our Financial Performance

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 recorded net losses in each of the last three fiscal years, including a net loss of $23.1 million for the fiscal year ended March 31, 2016, and it is unlikely that we will be profitable in fiscal 2016. We cannot be certain that we will regain profitability in the future.

There is currently substantial uncertainty in our business, which makes it difficult to evaluate our business and future prospects. In addition, our operating results historically have been difficult to predict and have at times fluctuated from quarter to quarter due to a variety of factors, many of which are outside of our control. As a result of all of these factors, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. If our revenue or operating results fall below the expectations of investors or any securities analysts that follow our company in any period, the trading price of our common stock would likely decline.

Our operating expenses do not always vary directly with revenue and may be difficult to adjust in the short term. As a result, if revenue for a particular quarter is below our expectations, we may not be able to proportionately reduce operating expenses for that quarter, and therefore such a revenue shortfall would have a disproportionate effect on our operating results for that 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.

As of March 31, 2016, we had approximately $40.7 million of cash, cash equivalents, and restricted cash, and during the fiscal year ended March 31, 2016, we used $4.6 million in cash for our operating activities. We have experienced substantial net losses, including a net loss of $23.1 million for the fiscal year ended March 31, 2016. From April 1, 2011 through March 31, 2016, our various restructuring activities resulted in a substantial reduction of our global workforce. We plan to continue to closely monitor our expenses and if required, will further reduce operating costs and capital spending to enhance liquidity.

Our liquidity is highly dependent on our ability to profitably grow our revenues, control our operating costs, fund monthly obligations under our term loans (collectively, the “Term Loans”) with Hercules Technology Growth Capital, Inc. (“Hercules”), and secure additional financing if required. We may require additional capital to adequately respond to future business challenges or opportunities, including, but not limited to, the need to develop new products or enhance existing products, maintaining or expanding research and development projects, and the need to build inventory or to invest other cash to support business growth. In the event that additional liquidity is required, there can be no assurance that such financing would be available or, if available, that such financing could be obtained upon terms acceptable to us.

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.

While we have been required to provide performance bonds in the form of surety bonds or other forms of security and letters of credit in the past, the size of the bonds and letters of credit was not material. In recent years, we have entered into contracts that require us to post bonds of significant magnitude and some of our suppliers have asked us to provide letters of credit. In many instances, we have been required to deposit cash in escrow accounts as collateral for these instruments, which is unavailable to us for general use for significant periods of time. Should we be unable to obtain performance bonds or letters of credit in the future, significant future potential revenue could become

unavailable to us. Further, should our working capital situation deteriorate, we would not be able to access the restricted cash to meet working capital requirements.

Changes in exchange rates could adversely affect our results from operations.

Currency exchange rate fluctuations could have an adverse effect on our revenues and results of operations, and we could experience losses with respect to hedging activities. In fiscal 2015, 85% of our revenues were recognized from sales outside the United States. In addition, approximately 64% of our revenues in fiscal 2015 were derived under sales contracts where prices were denominated in the Euro. Unfavorable currency fluctuations could require us to increase prices to foreign customers, which could result in a lesser number of orders, and therefore lower revenues, from such customers. Alternatively, if we do not adjust the prices for our products in response to unfavorable currency fluctuations, our results of operations could be adversely affected. In addition, most sales made by our foreign subsidiaries are denominated in the currency of the country in which these products are sold, and the currency they receive in payment for such sales could be less valuable at the time of receipt as a result of exchange rate fluctuations. From time to time, we enter into derivative instruments, including forward foreign exchange contracts and currency options to reduce currency exposure arising from intercompany sales of inventory and exposures arising from the sale of products denominated in one currency while costs are denominated in another. However, we cannot be certain that our efforts will be adequate to protect us against significant currency fluctuations or that such efforts will not expose us to additional exchange rate risks.

If we fail to maintain proper and effective internal control 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.

Maintaining effective internal control over financial reporting is necessary for us to produce reliable financial statements.

We note that a system of procedures and controls, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all systems of procedures and controls, no evaluation can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and breakdowns can occur because of simple errors or mistakes. Additionally, procedures and controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override. The design of any system of procedures and controls also is based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, our systems of procedures and controls, as we further develop and enhance them, may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective system of procedures and controls, misstatements due to errors or fraud may occur and not be detected. Such misstatements could be material and require a restatement of our financial statements.

If we are unable to maintain effective internal controls, we may not have adequate, accurate or timely financial information, and we may be unable to meet our reporting obligations or comply with the requirements of the SEC or the Sarbanes-Oxley Act of 2002, which could result in the imposition of sanctions, including the inability of registered broker dealers to make a market in our common stock, or investigation by regulatory authorities. Any such action or other negative results caused by our inability to meet our reporting requirements or comply with legal and regulatory requirements or by disclosure of an accounting, reporting or control issue could adversely affect the trading price of our securities and our business. Significant deficiencies or material weaknesses in our internal control over financial reporting could also reduce our ability to obtain financing or could increase the cost of any financing we obtain.

Our Term Loans include certain covenants and other events of default. Should we not comply with these covenants or incur an event of default, Hercules may accelerate our payment obligations under our Term Loans, which could have an adverse effect on our liquidity.

Our Term Loans include certain financial and administrative covenants, including a requirement to maintain a minimum unrestricted U.S. cash balance equal to the lower of $2.0 million or the aggregate outstanding principal balance of the Term Loans. As of March 31, 2016, the minimum threshold was $2.0 million.

If we fail to stay in compliance with our covenants or suffer some other event of default under the Term Loans, Hercules may accelerate our payment obligations, and we may be required to repay the outstanding principal in cash. Should this occur, our liquidity would be adversely impacted.

Risks Related to Our Operations

A significant portion of our revenues are derived from a single customer.

Our largest customer is Inox in India. Inox accounted for 62% of our total revenues during the fiscal year ended March 31, 2016 and 56% of our revenues during the fiscal year ended March 31, 2015. Revenues from Inox are supported by supply contracts to purchase, and a license to make, use and supply, wind turbine electrical control systems. If Inox cancelled such contracts, or discontinued future purchases from us under the supply contracts, we would likely be unable to replace the related revenues. This would have a material adverse impact on our operating results and financial position.

Our financial condition may have an adverse effect on our customer and supplier relationships.

Our relationships with our customers and suppliers are predicated on the belief that we will continue to operate. Our customers, particularly in the utility industry, are generally risk averse and may not enter into sales contracts with us if there is uncertainty regarding our ability to continue operating through the term of our warranty obligation. This has had and may continue to have an adverse effect on our ability to grow our revenues. In addition, current and future suppliers may be less likely to grant us credit, resulting in a negative impact on our working capital and cash flows.

Our success in addressing the wind energy market is dependent on the manufacturers that license our designs.

Because an important element of our strategy for addressing the wind energy market involves the license of our wind turbine designs to manufacturers of those systems, the financial benefits to us from our products for the wind energy market are dependent on the success of these manufacturers in selling wind turbines based on our designs. We may not be able to enter into marketing or distribution arrangements with third parties on financially acceptable terms, or at all, and third parties may not be successful in selling our products or applications incorporating our products.

Our success is dependent upon attracting and retaining qualified personnel and our inability to do so could significantly damage our business and prospects.

We have attracted a highly skilled management team and specialized workforce, including scientists, engineers, researchers, manufacturing, marketing and sales professionals. If we were to lose the services of any of our executive officers or key employees, our business could be materially and adversely impacted.

Hiring and retaining good personnel for our business is challenging, and highly qualified technical personnel are likely to remain a limited resource for the foreseeable future despite current economic conditions and high unemployment levels. We may not be able to hire the necessary personnel to implement our business strategy. In addition, we may need to provide higher compensation or more training to our personnel than we currently anticipate. Moreover, any officer or employee can terminate his or her relationship with us at any time.

Over the past several years, we have substantially reduced our global workforce in order to lower expenses, reorganize our global operations, and streamline various functions of the business, to match the demand for our products. Employee retention may be a particularly challenging issue following reductions in workforce and organizational changes since we also must continue to motivate employees and keep them focused on our strategies and goals. If we lose any key personnel, we may not be able to find qualified individuals to replace them, and our business, results of operations and financial condition could be materially adversely affected.

We may not realize all of the sales expected from our backlog of orders and contracts.

We cannot assure you that we will realize the revenue we expect to generate from our backlog in the periods we expect to realize such revenue, or at all.

In addition, the backlog of orders, if realized, may not result in profitable revenue. Backlog represents the value of contracts and purchase orders received for which delivery is expected in the next twelve months. Our customers have the right under some circumstances and with some penalties or consequences to terminate, reduce or defer firm orders that we have in backlog. In addition, our government contracts are subject to the risks described below. If our customers terminate, reduce or defer firm orders, we may be protected from certain costs and losses, but our sales will nevertheless be adversely affected and we may not generate the revenue we expect.

Although we strive to maintain ongoing relationships with our customers, there is an ongoing risk that they may cancel orders or reschedule orders due to fluctuations in their business needs or purchasing budgets.

Our business and operations would be adversely impacted in the event of a failure or security breach of our information technology infrastructure.

We rely upon the capacity, reliability, and security of our information technology hardware and software infrastructure and our ability to expand and update this infrastructure in response to our changing needs. We are constantly updating our information technology infrastructure. Any failure to manage, expand, and update our information technology infrastructure or any failure in the operation of this infrastructure could harm our business.

Despite our implementation of security measures, our systems are vulnerable to damages from computer viruses, natural disasters, unauthorized access and other similar disruptions. Our business is also subject to break-ins, sabotage, and intentional acts of vandalism by third parties as well as employees. Our business activities in China may increase our risks to such breaches. For example, a former employee of our Austrian subsidiary pled guilty in September 2011 to charges of economic espionage and fraudulent manipulation of data. The evidence presented during the trial showed 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, the evidence shows that this 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. Any system failure, accident, or security breach could result in disruptions to our operations. To the extent that any disruption or security breach results in a loss or damage to our data, or inappropriate disclosure of confidential information, it could harm our business. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

We may have manufacturing quality issues at our manufacturing facility in Romania, which would negatively affect our revenues and financial position.

We have leased a manufacturing facility in Timisoara, Romania, where we manufacture wind turbine electrical control systems for all other markets apart from the Chinese market. If we experience delays or increased costs, cannot produce a high quality product, are unable to hire and to retain a sufficient number of qualified personnel, or other unforeseen events occur, our business, financial condition and results of operations could be adversely affected.

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 components and subassemblies are currently manufactured for us by a limited number of qualified suppliers. Any interruption in the supply of components or subassemblies, or our inability to obtain substitute components or subassemblies from alternate sources at acceptable prices in a timely manner, could impair our ability to meet the demand of our customers, which would have an adverse effect on our business and operating results.

We are producing certain Wind products in our manufacturing facilities in China and Romania. In order to minimize costs and time to market, we have and will continue to identify local suppliers that meet our quality standards to produce certain of our subassemblies and components. These efforts may not be successful. In addition, any event which negatively impacts our supply, including, among others, wars, terrorist activities, natural disasters and outbreaks of infectious disease, could delay or suspend shipments of products or the release of new products or could result in the delivery of inferior products. Our revenues from the affected products would decline or we could incur losses until such time as we are able to restore our production processes or put in place alternative contract manufacturers or suppliers. Even though we carry business interruption insurance policies, we may suffer losses as a result of business interruptions that exceed the coverage available under our insurance policies.

Many of our revenue opportunities are dependent upon subcontractors and other business collaborators.

Many of the revenue opportunities for our business involve projects, such as the installation of superconductor cables in power grids and electrical system hardware in wind turbines, in which we collaborate with other companies, including suppliers of cryogenic systems, manufacturers of electric power cables and manufacturers of wind turbines. As a result, most of our current and planned revenue-generating projects involve business collaborators on whose performance our revenue is dependent. If these business collaborators fail to deliver their products or perform their obligations on a timely basis or fail to generate sufficient demand for the systems they manufacture, our revenue from the project may be delayed or decreased, and we may not be successful in selling our products.

If we fail to implement our business strategy successfully, our financial performance could be harmed.

Our future financial performance and success are dependent in large part upon our ability to implement our business strategy successfully. Our business strategy envisions several initiatives, including driving revenue growth and enhancing operating results by increasing customer adoption of our products by targeting high-growth segments with commercial products, pursuing overseas markets, anticipating customer needs in the development of system-level solutions, strengthening our technology leadership while lowering cost and pursuing targeted strategic alliances. We may not be able to implement our business strategy successfully or achieve the anticipated benefits of our business plan. If we are unable to do so, our long-term growth and profitability may be adversely affected. Even if we are able to implement some or all of the initiatives of our business plan successfully, our operating results may not improve to the extent we anticipate, or at all. In addition, to the extent we have misjudged the nature and extent of industry trends or our competition, we may have difficulty in achieving our strategic objectives. Any failure to implement our business strategy successfully may adversely affect our business, financial condition and results of operations. In addition, we may decide to alter or discontinue certain aspects of our business strategy at any time.

Our ability to implement our business strategy could also be affected by a number of factors beyond our control, such as increased competition, legal developments, government regulation, general economic conditions, or increased operating costs or expenses.

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.

Consistent with customary practice in our industry, we warrant our products and/or services to be free from defects in material and workmanship under normal use and service. We generally provide a one- to three-year warranty on our products, commencing upon installation. A provision is recorded upon revenue recognition to cost of revenues for estimated warranty expense based on historical experience. The possibility of future product failures or issues related to services we provided could cause us to incur substantial expenses to repair or replace defective products or re-perform such services. Furthermore, widespread product failures may damage our market reputation and reduce our market share and cause sales to decline.

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.

As a company that contracts with the U.S. government, we are subject to financial audits and other reviews by the U.S. government of our costs and performance, accounting, and general business practices relating to these contracts. Based on the results of these audits, the U.S. government may adjust our contract-related costs and fees. We cannot be certain that adjustments arising from government audits and reviews would not have a material adverse effect on our results of operations.

Our U.S. government contracts customarily contain other provisions that give the government substantial rights and remedies, many of which are not typically found in commercial contracts, including provisions that allow the government to:

- obtain certain rights to the intellectual property that we develop under the contract;
- decline to award future contracts if actual or apparent organizational conflicts of interest are discovered, or to impose organizational conflict mitigation measures as a condition of eligibility for an award;
- suspend or debar us from doing business with the government or a specific government agency; and
- pursue criminal or civil remedies under the False Claims Act, False Statements Act and similar remedy provisions unique to government contracting.

All of our U.S. government contracts can be terminated by the U.S. government for its convenience, including our contract with the Department of Homeland Security ("DHS") to deploy our REG system in Commonwealth Edison's ("ComEd") electric grid in Chicago, Illinois ("Project REG"). Moving to the manufacturing and construction stage of Project REG is dependent upon both DHS and ComEd agreeing to proceed following the successful completion of a detailed deployment plan. We can provide no assurance that DHS and ComEd will agree to proceed with the project. Termination-for-convenience provisions typically provide only for our recovery of costs incurred or committed, and for settlement of expenses and profit on work completed prior to termination. In addition to the right of the U.S. government to terminate its contracts with us, U.S. government contracts are conditioned upon the continuing approval by the U.S. Congress of the necessary spending to honor such contracts. Congress often appropriates funds for a program on a fiscal-year basis even though contract performance may take more than one year. Consequently, at the beginning of many major governmental programs, contracts often may not be fully funded, and additional monies are then committed to the contract only if, as and when appropriations are made by the U.S. Congress for future fiscal years.

We cannot be certain that our U.S. government contracts, including our contract for Project REG, will not be terminated or suspended in the future. The U.S. government's termination of, or failure to fully fund, one or more of our contracts would have a negative impact on our operating results and financial condition. Further, in the event that any of our government contracts are terminated for cause, it could affect our ability to obtain future government contracts which could, in turn, seriously harm our ability to develop our technologies and products.

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.

The U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws in non-U.S. jurisdictions generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Many of our customers outside of the United States are, either directly or indirectly, related to governmental entities and are therefore subject to such anti-bribery laws. Our policies mandate compliance with these anti-bribery laws. We operate in many parts of the world that have experienced governmental corruption to some degree, and in certain circumstances strict compliance with anti-bribery laws may conflict with local customs and practices. Our internal control policies and procedures may not always protect us from reckless or criminal acts committed by our employees or agents. Violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our business, results of operations and financial condition.

We have had limited success marketing and selling our superconductor products and system-level solutions, and our failure to more broadly market and sell our products and solutions could lower our revenue and cash flow.

To date, we have had limited success marketing and selling our superconductor products and system-level solutions, and there are few people who have significant experience marketing or selling superconductor products and system-level solutions. Once our products and solutions are ready for widespread commercial use, we will have to develop a marketing and sales organization that will effectively demonstrate the advantages of our products over both more traditional products and competing superconductor products or other technologies. We may not be successful in our efforts to market this technology and we may not be able to establish an effective sales and distribution organization.

We may decide to enter into arrangements with third parties for the marketing or distribution of our products, including arrangements in which our products, such as Amperium wire, are included as a component of a larger product, such as a power cable system. By entering into marketing and sales alliances, the financial benefits to us of commercializing our products will be dependent on the efforts of others.

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 prior acquisitions required substantial integration and management efforts. As a result of any acquisition we pursue, management's attention and resources may be diverted from our other businesses. An acquisition may also involve the payment of a significant purchase price, which could reduce our cash position or dilute our stockholders, and require significant transaction-related expenses.

Achieving the benefits of any acquisition involves additional risks, including:

- difficulty assimilating acquired operations, technologies and personnel;
- inability to retain management and other key personnel of the acquired business;
- changes in management or other key personnel that may harm relationships with the acquired business's customers and employees;

- unforeseen liabilities of the acquired business;
- diversion of management's and employees' attention from other business matters as a result of the integration process;
- mistaken assumptions about volumes, revenue and costs, including synergies;
- limitations on rights to indemnity from the seller;
- mistaken assumptions about the overall costs of equity or debt used to finance the acquisition; and
- unforeseen difficulties operating in new product areas, with new customers, or in new geographic areas.

We cannot provide any assurance that we will realize any of the anticipated benefits of any acquisition, and if we fail to realize these anticipated benefits, our operating performance could suffer.

Risks Related to Our Markets

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.

To date, there has been no widespread commercial use of HTS products. Even if the technological hurdles currently limiting commercial uses of HTS products are overcome, it is uncertain whether a robust commercial market for those new and unproven products will ever develop. To date, many projects to install superconductor cables and products in power grids have been funded or subsidized by the governmental authorities. If this funding is curtailed, grid operators may not continue to use superconductor cables and products in their projects.

In addition, we believe in-grid demonstrations of superconductor power cables are necessary to convince utilities and power grid operators of the benefits of this technology. Even if a project is funded, completion of projects can be delayed as a result of other factors.

It is possible that the market demands we currently anticipate for our HTS products will not develop and that they will never achieve widespread commercial acceptance. In such event, we would not be able to implement our strategy, and our profits could be reduced or eliminated. Even if a commercial market for our HTS products were to develop, commercial terms requested by utilities and power grid operators relating to bonding requirements, limitations of liability, warranty periods, or other contractual provisions, may not be acceptable to us, which could impede our ability to enter into contractual arrangements for the sale of our HTS products.

Growth of the wind energy market depends largely on the availability and size of government subsidies and economic incentives.

At present, the cost of wind energy exceeds the cost of conventional power generation in many locations around the world. Various governments have used different policy initiatives to encourage or accelerate the development and adoption of wind energy and other renewable energy sources. Renewable energy policies are in place in the European Union, certain countries in Asia, including India, China, Japan and South Korea, and many of the states in Australia and the United States. Examples of government- sponsored financial incentives include capital cost rebates, feed-in tariffs, tax credits, net metering and other incentives to end-users, distributors, system integrators and manufacturers of wind energy products to promote the use of wind energy and to reduce dependency on other forms of energy. Governments may decide to reduce or eliminate these economic incentives for political, financial or other reasons. Reductions in, or eliminations of, government subsidies and economic incentives before the wind energy industry reaches a sufficient scale to be cost-effective in a non-subsidized marketplace could reduce demand for our products and adversely affect our business prospects and results of operations.

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.

We have operations in India and China and, in recent years, a significant portion of our total revenues has been derived from customers in these markets. Our financial performance depends upon our ability to carry on our operations and market our products in these countries, as well as other emerging markets around the world. We are, and will continue to be, subject to financial, political, economic and business risks in connection with our operations and sales in these emerging markets. In addition to the business risks inherent in developing and servicing these markets, economic conditions may be more volatile, legal and regulatory systems less developed and predictable, and

the possibility of various types of adverse governmental action more pronounced in emerging markets. In addition, inflation, fluctuations in currency and interest rates, competitive factors, civil unrest and labor problems could affect our revenues, expenses and results of operations. Our operations could also be adversely affected by acts of war, terrorism or the threat of any of these events as well as government actions such as controls on imports, exports and prices, tariffs, new forms of taxation, or changes in fiscal regimes and increased government regulation in the countries in which we operate or service customers. Unexpected or uncontrollable events or circumstances in any of these markets could have a material adverse effect on our financial results and cash flows.

Our financial performance could be affected by the political and social environment in India. In recent years, India has experienced civil unrest and terrorism and has been involved in conflicts with neighboring countries. The potential for hostilities between India and Pakistan has been high in light of tensions related to recent terrorist incidents in India and the unsettled nature of the regional geopolitical environment, including events in and related to Afghanistan and Iraq.

With respect to our activities in all emerging markets, we may be impacted by issues with managing foreign sales operations, including long payment cycles, potential difficulties in accounts receivable collection and, especially from significant customers, fluctuations in the timing and amount of orders. The adverse effect of any of these issues on our business could be increased due to the concentration of our business with a small number of customers. For instance, the Chinese government has, in the past, restricted lending from banks to companies in China as a means to fight inflation, resulting in a limitation of access to credit. Problems with collections from, or sales to, any one of those customers could reduce our revenue and harm our financial performance. Operations in foreign countries also expose us to risks relating to difficulties in enforcing our proprietary rights, currency fluctuations and adverse or deteriorating economic conditions. If we experience problems with obtaining registrations, compliance with foreign country or applicable U.S. laws, or if we experience difficulties in payments or intellectual property matters in foreign jurisdictions, or if significant political, economic or regulatory changes occur, our results of operations would be adversely affected.

Our products face intense competition, which could limit our ability to acquire or retain customers.

The markets for our products are intensely competitive and many of our competitors have substantially greater financial resources, research and development, manufacturing and marketing capabilities than we do. In addition, as our target markets develop, other large industrial companies may enter these fields and compete with us.

Our Wind business faces competition for the supply of wind turbine engineering design services from design engineering firms such as GL Garrad Hassan, and from licensors of wind turbine systems such as Aerodyn.

Our Wind business also faces competition from companies offering power electronic converters for use in applications for which we expect to sell our PowerModule products. These companies include ABB, Hopewind, Semikron, Shinergy, Vacon and Xantrex (a subsidiary of Schneider Electric).

Finally, our Wind business faces competition from companies offering wind turbine electrical system components, including ABB, Ingeteam, Mita-Teknik, and Woodward. We also face indirect competition in the wind energy market from global manufacturers of wind energy systems, such as Gamesa, General Electric, Suzlon and Vestas.

Our Grid business faces competition from companies offering FACTS systems similar to our D-VAR products. These include SVCs from ABB, General Electric, AREVA, Mitsubishi Electric and Siemens; adaptive VAR compensators and STATCOMs produced by ABB, Siemens, and S&C Electric; dynamic voltage restorers produced by companies such as ABB and S&C Electric; and flywheels and battery-based UPS systems offered by various companies around the world.

Our Grid business also faces competition both from suppliers of traditional wires made from materials such as copper and from companies who are developing HTS wires.

Finally, our Grid business faces competition for our Amperium wire from a number of companies in the United States and abroad who are developing 2G HTS wire technology. These include Superconductor Technologies and Superpower (a subsidiary of Furukawa) in the United States; Fujikura, and Sumitomo in Japan; SuNAM in South Korea; BASF in Europe; Innova and Shanghai Creative Superconductor in China; and SuperOx in Russia. With our HTS-based REG product, we are offering a new approach that provides alternatives to utilities for power system design. Therefore, we believe that we compete with traditional approaches such as new full-sized substations, overhead and underground transmission, and urban power transformers.

We believe we are currently the only company that can offer HTS-based SPS that have been fully qualified for use aboard Navy surface combatants. Therefore, the primary competition for our SPS products is currently coming from defense contractors that provide the copper-based systems that our lighter, more efficient HTS versions have been developed to replace. Companies such as L3, Excelis, Raytheon and Textron have the bulk of the copper-based

business today. However, over time, as the HTS-based SPS proliferate to the fleet, companies that have the capability to manufacture and/or package HTS wire into robust, turn-key systems will most likely attempt to duplicate our products and thus additional competition is expected from more traditional HTS competitors such as those listed above.

As the HTS wire, superconductor electric motors and generators, and power electronic systems markets develop, other large industrial companies may enter those fields and compete with us. If we are unable to compete successfully, it may harm our business, which in turn may 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.

In recent years, a substantial majority of our consolidated revenues were recognized from customers outside of the United States. For example, 85% of our revenues in fiscal 2015 and 86% of our revenues in fiscal 2014 were recognized from sales outside the United States. Our international operations are subject to a variety of risks that we do not face in the United States, including:

- potentially longer payment cycles for sales in foreign countries and difficulties in collecting accounts receivable;
- difficulties in staffing and managing our foreign offices and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;
- additional withholding taxes or other taxes on our foreign income and repatriated cash, and tariffs or other restrictions on foreign trade or investment, including export duties and quotas, trade and employment restrictions;
- imposition of, or unexpected adverse changes in, foreign laws or regulatory requirements;
- increased exposure to foreign currency exchange rate risk;
- reduced protection for intellectual property rights in some countries; and
- political unrest, war or acts of terrorism.

Our overall success in international markets depends, in part, upon our ability to succeed in differing legal, regulatory, economic, social and political conditions. We may not be successful in developing and implementing policies and strategies that will be effective in managing these risks in each country where we do business or conduct operations. Our failure to manage these risks successfully could harm our international operations and reduce our international sales, thus lowering our total revenue and reducing or eliminating our profits.

Adverse changes in domestic and global economic conditions could adversely affect our operating results.

We have become increasingly subject to the risks arising from adverse changes in domestic and global economic conditions. In recent years, the state of both the domestic and global economies has been uncertain due to the difficulty in obtaining credit, weak economic recovery, and financial market volatility. Adverse credit conditions in the future could have a negative impact on our ability to execute on future strategic activities. In addition, if credit is difficult to obtain in the future, some customers may delay or reduce purchases. This could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies, increased accounts receivable and inventory write-offs and increased price competition. Any of these events would likely harm our business, results of operations and financial condition.

Risks Related to Our Technologies

We may be unable to adequately prevent disclosure of trade secrets and other proprietary information.

We rely on trade secrets to protect our proprietary technologies, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. We rely, in part, on confidentiality agreements with our employees, contractors, consultants, outside scientific collaborators and other advisors to protect our trade secrets and other proprietary information. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets or independently develop processes or products that are similar or identical to our trade secrets and courts outside the United States may be less willing to protect trade secrets. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

For example, based, in part, upon evidence obtained through an internal investigation and a criminal investigation conducted by Austrian authorities regarding the actions of a former employee of our Austrian subsidiary, we believe

that Sinovel illegally obtained and used our intellectual property in violation of civil and criminal intellectual property laws. 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. On September 13, 2011, we commenced a series of legal actions in China against Sinovel and other parties alleging the illegal use of our intellectual property. We cannot provide any assurance as to the outcome of these legal actions. This or future litigation with Sinovel could result in substantial costs and divert management's attention and resources, which could have an adverse effect on our business, operating results and financial condition. In addition, such proceedings may make it more difficult to finance our operations. If we are unsuccessful in this litigation and fail to maintain adequate protection of this intellectual property, our competitive business position would be adversely affected. For more information about these legal proceedings, see Part I, Item 3, "Legal Proceedings."

Our patents may not provide meaningful protection for our technology, which could result in us losing some or all of our market position.

We own or have licensing rights under many patents and pending patent applications. However, the patents that we own or license may not provide us with meaningful protection of our technologies and may not prevent our competitors from using similar technologies, for a variety of reasons, such as:

- the patent applications that we or our licensors file may not result in patents being issued;
- any patents issued may be challenged by third parties; and
- others may independently develop similar technologies not protected by our patents or design around the patented aspects of any technologies we develop.

Moreover, we could incur substantial litigation costs in defending the validity of or enforcing our own patents. We also rely on trade secrets and proprietary know-how to protect our intellectual property. However, our non-disclosure agreements and other safeguards may not provide meaningful protection for our trade secrets and other proprietary information. If the patents that we own or license or our trade secrets and proprietary know-how fail to protect our technologies, our market position may be adversely affected.

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.

Many of our superconductor products are in the early stages of commercialization, while others are still under development. There are a number of technological challenges that we must successfully address to complete our development and commercialization efforts for superconductor products. We will also need to improve the performance and reduce the cost of our Amperium wire to expand the number of commercial applications for it. We may be unable to meet such technological challenges or to sufficiently improve the performance and reduce the costs of our Amperium wire. Delays in development, as a result of technological challenges or other factors, may result in the introduction or commercial acceptance of our superconductor products later than anticipated.

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.

We expect that some or all of the HTS materials, processes and technologies we use in designing and manufacturing our products are or will become covered by patents issued to other parties, including our competitors. The owners of these patents may refuse to grant licenses to us, or may be willing to do so only on terms that we find commercially unreasonable. If we are unable to obtain these licenses, we may have to contest the validity or scope of those patents or re-engineer our products to avoid infringement claims by the owners of these patents. It is possible that we will not be successful in contesting the validity or scope of a patent, or that we will not prevail in a patent infringement claim brought against us. Even if we are successful in such a proceeding, we could incur substantial costs and diversion of management resources in prosecuting or defending such a proceeding.

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.

In recent years, there has been significant litigation involving patents and other intellectual property rights in many technology-related industries. There may be patents or patent applications in the United States or other countries that are pertinent to our products or business of which we are not aware. The technology that we incorporate into and use to develop and manufacture our current and future products, including the technologies we license, may be subject to claims that they infringe the patents or proprietary rights of others. The success of our business will also depend on our ability to develop new technologies without infringing or misappropriating the proprietary rights of others. Third

parties may allege that we infringe patents, trademarks or copyrights, or that we misappropriated trade secrets. These allegations could result in significant costs and diversion of the attention of management. If a successful claim were brought against us and we are found to infringe a third party's intellectual property rights, we could be required to pay substantial damages, including treble damages if it is determined that we have willfully infringed such rights, or be enjoined from using the technology deemed to be infringing, or using, making or selling products deemed to be infringing. If we have supplied infringing products or technology to third parties, we may be obligated to indemnify these third parties for damages they may be required to pay to the patent holder and for any losses they may sustain as a result of the infringement. In addition, we may need to attempt to license the intellectual property right from such third party or spend time and money to design around or avoid the intellectual property. Any such license may not be available on reasonable terms, or at all. An adverse determination may subject us to significant liabilities and/or disrupt our business.

Risks Related to Our Legal Matters

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.

On March 31, 2011, 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. 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 filed a claim for arbitration against Sinovel 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. In addition, we have filed civil complaints in China against Sinovel alleging the illegal use of our intellectual property. Sinovel has filed counterclaims against us with the Beijing Arbitration Commission for breach of the same contracts under which we filed our original arbitration claim. Sinovel claims, among other things, that the goods supplied by us do not conform to the standards specified in the contracts and has claimed net damages in the amount of approximately 1.2 billion Chinese yuan (“RMB”) (approximately $190.0 million). Sinovel also filed a claim with the Beijing Arbitration Commission 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 105.0 million (approximately $17.0 million). As the legal proceedings continue, we and Sinovel may identify additional amounts in dispute. We cannot provide any assurance as to the outcome of these legal actions or that, if we prevail, we ultimately will be able to collect any amounts awarded. Moreover, these legal proceedings could result in the incurrence of significant legal and related expenses, which may not be recoverable depending on the outcome of the litigation. An award by the arbitration panel or court in favor of Sinovel and/or the incurrence of significant legal fees that are not recoverable could adversely impact our operating results. For more information about these legal proceedings, see Part I, Item 3, “Legal Proceedings.”

In April 2016, we were notified that our income tax filings in China were to be examined for the 2013 and 2014 calendar years. The income tax filings in these years include carried-forward tax positions related to the aforementioned events in 2011. These positions include, but are not limited to, the continuing requirement to repay liabilities to other AMSC legal entities for the purchase of raw materials and other components incorporated into the goods sold to Sinovel, which are not able to be repaid by our subsidiary in China until it is paid the past-due amounts owed by Sinovel. While we believe our tax positions are appropriate, there can be no assurance that the Tax Authority in China will not challenge these positions in a manner that would result in an adverse ruling against us, which could result in a disruption to our operations in China, and could have an adverse effect on our business and results of operations.

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.

We are and may become subject to various legal proceedings and claims that arise in or outside the ordinary course of business. Certain current lawsuits and pending proceedings are described under Part I, Item 3. “Legal Proceedings.”

The results of these lawsuits and future legal proceedings cannot be predicted with certainty. Also, our insurance coverage may be insufficient, our assets may be insufficient to cover any amounts that exceed our insurance coverage, and we may have to pay damage awards or otherwise may enter into settlement arrangements in connection with such claims. Any such payments or settlement arrangements in current or future litigation could have a material adverse effect on our business, operating results or financial condition. Even if the plaintiffs' claims are not successful, current future litigation could result in substantial costs and significantly and adversely impact our reputation and divert management's attention and resources, which could have a material adverse effect on our business, operating results or financial condition. In addition, such lawsuits may make it more difficult to finance our operations.

Risks Related to Our Common Stock

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.

The market price of our common stock has historically experienced significant volatility and may continue to experience such volatility in the future. Factors such as our financial performance, liquidity requirements, technological achievements by us and our competitors, the establishment of development or strategic relationships with other companies, strategic acquisitions, new customer orders and contracts, and our introduction of commercial products may have a significant effect on the market price of our common stock. The stock market in general, and the stock of high technology companies, in particular, have, in recent years, experienced extreme price and volume fluctuations, which are often unrelated to the performance or condition of particular companies. Such broad market fluctuations could adversely affect the market price of our common stock. Due to these factors, the price of our common stock may decline and investors may be unable to resell their shares of our common stock for a profit. Following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. In the past, we have been subject to a number of class action lawsuits which were filed against us on behalf of certain purchasers of our common stock. If we become subject to additional litigation of this kind in the future, it could result in additional substantial litigation costs, a damages award against us and the further diversion of our management's attention.

Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 2. PROPERTIES

Our corporate headquarters, FACTS manufacturing and Amperium wire manufacturing operations are located in a 355,000-square-foot facility owned by us and located in Devens, Massachusetts.

We also occupy leased facilities located in New Berlin, Wisconsin; Suzhou, China; Klagenfurt, Austria; and Timisoara, Romania with a combined total of approximately 183,000 square feet of space. These leases have varying expiration dates through March 2021 which can generally be terminated at our request after a six month advance notice. Our other locations focus primarily on applications engineering, sales and/or field service and do not have significant leases or physical presence. We believe all of these facilities are well-maintained and suitable for their intended uses.

The following table summarizes information regarding our significant leased and owned properties, as of March 31, 2016:

Location	Supporting	Square footage	Owned/Leased
United States			
Devens, Massachusetts	Corporate & Grid Segment	355,000	Owned
New Berlin, Wisconsin	Wind & Grid Segments	50,000	Leased
China			

Suzhou & Beijing	Wind Segment	39,000	Leased
Austria			
Klagenfurt	Wind Segment	32,000	Leased
Romania			
Timisoara	Wind Segment	62,000	Leased

Item 3. 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 (approximately $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 (approximately $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 (approximately $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 (approximately $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 (approximately $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 (approximately $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. 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 (approximately $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. 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. 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 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock has been listed on the NASDAQ Global Select Market under the symbol "AMSC" since 1991. The following table sets forth the high and low sales price per share of our common stock as reported on the NASDAQ Global Select Market for each quarter of the two most recent fiscal years. The sales prices in this table have been adjusted to reflect the 1-for-10 reverse stock split effected March 24, 2015.

	Common Stock Price	
	High	Low
Fiscal year ended March 31, 2016:		
First quarter	$10.89	$5.10
Second quarter	5.94	3.26
Third quarter	7.89	3.81
Fourth quarter	9.05	5.28
Fiscal year ended March 31, 2015:		
First quarter	$16.90	$12.50
Second quarter	21.50	14.00
Third quarter	14.30	6.98
Fourth quarter	8.80	5.67

Holders

The number of holders of record of our common stock on May 25, 2016 was 326.

Dividend Policy

We have never paid cash dividends on our common stock. We currently intend to retain earnings, if any, to fund the development and growth of our business and do not anticipate paying cash dividends for the foreseeable future. Payment of future cash dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs and plans for expansion. The Term Loans with Hercules Technology Growth Capital, Inc. which are discussed further in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", prohibit us from paying cash dividends.

Stock Performance Graph

The following graph compares the cumulative total stockholder return on our common stock from March 31, 2011 to March 31, 2016 with the cumulative total return of (i) the Russell 2000 Index (ii) the Russell Microcap Index and the S&P 500. We added the Russell Microcap Index in this Annual Report because we believe that this index is more closely aligned to our size and market capitalization than the S&P 500. This graph assumes the investment of $100.00 on March 31, 2011 in our common stock, the Russell 2000 Index and the Russell Microcap Index and the S&P 500, and assumes any dividends are reinvested. Measurement points are March 31, 2012; March 31, 2013;

March 31, 2014; March 31, 2015; and March 31, 2016.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Among American Superconductor Corporation, the Russell 2000 Index,

the Russell Microcap Index and the S&P 500 Index

Company/Index	3/31/11	3/31/12	3/31/13	3/31/14	3/31/15	3/31/16
American Superconductor Corp.	100.00	16.57	10.74	6.47	2.59	3.06
Russell Microcap	100.00	96.64	111.39	146.61	150.45	129.13
Russell 2000	100.00	98.43	112.80	139.06	148.51	132.06
S&P 500	100.00	108.54	123.69	150.73	169.92	172.95

Item 6. SELECTED FINANCIAL DATA

The following selected financial data reflects the results of operations and balance sheet data for the fiscal years ended March 31, 2012 to 2016. Per share data has been restated to reflect the 1-for-10 reverse stock split effected on March 24, 2015. The information set forth below is not necessarily indicative of results of future operations and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the consolidated financial statements and notes thereto included in Item 8, "Financial Statements and Supplementary Data," of this Form 10-K, in order to understand further the factors that may affect the comparability of the financial data presented below.

	Fiscal year ended March 31,				
	2016	2015	2014	2013	2012
	(In thousands, except per share data)				
Revenues	$96,023	$70,530	$84,117	$87,419	$76,543
Net loss	(23,139)	(48,656)	(56,258)	(66,131)	(136,827)
Net loss per common share - basic	(1.76)	(5.74)	(8.98)	(12.46)	(26.91)
Net loss per common share - diluted	(1.76)	(5.74)	(8.98)	(12.46)	(26.91)
Total assets	135,318	133,825	168,509	216,754	255,056
Working capital	42,334	17,319	35,459	40,428	57,248
Cash, cash equivalents, marketable securities and restricted cash	40,721	24,548	49,421	50,199	66,209
Long term debt, net of discount	1,367	3,877	6,380	9,248	-
Stockholders' equity	83,549	79,893	112,259	125,118	164,879

Included in the net loss for the fiscal year ended March 31, 2016 was stock-based compensation expense of $3.2 million, restructuring and impairment charges of $0.8 million, gains on sales of our minority investments of $3.1 million, non-cash interest expense of $0.4 million, and a loss from the change in fair value of warrants and derivatives of $0.2 million. Included in the net loss for the fiscal year ended March 31, 2015 was stock-based compensation expense of $5.9 million, restructuring and impairment charges of $5.4 million, non-cash interest expense of $0.6 million, arbitration award expense of $9.0 million and a gain from the change in fair value of warrants and derivatives of $4.0 million. Included in the net loss for the fiscal year ended March 31, 2014 was stock-based compensation expense of $10.7 million, restructuring and impairment charges of $3.0 million, a prepaid value added tax reserve of $1.4 million, non-cash interest expense of $7.7 million, a loss on extinguishment of debt of $5.2 million and a gain from the change in fair value of warrants and derivatives of $1.9 million. Included in the net loss for the fiscal year ended March 31, 2013 was stock-based compensation expense of $8.1 million, restructuring and impairment charges of $7.9 million, a loss contingency of $1.8 million, non-cash interest expense of $12.4 million as well as gains from the change in fair value of warrants and derivatives and recoveries of adverse purchase commitments of $7.6 million and $7.8 million, respectively. Included in the net loss for the fiscal year ended March 31, 2012 was stock-based compensation expense of $9.9 million, a write-off of an advance payment to The Switch Engineering OY ("The Switch") of $20.6 million, restructuring and impairment charges of $9.2 million, expense of patent costs of $4.9 million, and Sinovel legal expenses of $5.8 million.

Item 7. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Overview

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 drivetrains and power ratings of 2 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.

We have experienced recurring operating losses and as of March 31, 2016 had an accumulated deficit of $928.2 million. In addition, we have experienced recurring negative operating cash flows. At March 31, 2016, we had cash and cash equivalents of $39.3 million. Cash used in operations for the year ended March 31, 2016 was $4.6 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 $71.0 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 9, “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 March 31, 2016.

In March 2016, the Company entered into a set of agreements to jointly develop an advanced low cost manufacturing process for second generation high temperature superconductor wire with BASF Corporation (“BASF”). Under the joint development agreement, the Company’s manufacturing know-how for its Amperium® superconductor wire and BASF's chemical solution deposition production technology will be combined. As part of the agreements, the Company also entered into a royalty-bearing, non-exclusive license under which the Company agreed to provide BASF a specified portion of its second generation (2G) high temperature superconductor (HTS) wire manufacturing technology.

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 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, Inox agreed that 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. During the fourth quarter of fiscal 2015, Inox made the upfront payment of $6.0 million required under the license agreement, but as of the date of this Annual Report it has not made the $2.0 million advance payment required under the supply contract. Significant deviations to our business plan with regard to these factors and events, including any prolonged disruption in our revenues with our largest customers, 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 “Liquidity and Capital Resources” below for additional discussion.

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 $2.8 million from the sale, which was recorded as a gain during the year ended March 31, 2016. Additionally, under the terms of the purchase agreement, we may be entitled to receive up to an additional $1.2 million in proceeds, upon the successful achievement of certain milestones by Blade Dynamics over the next three years. On March 11, 2016, we sold 100% of our minority investment in Tres Amigas to an investor for $0.6 million. We received $0.3 million according to the terms of the purchase agreement upon closing, which was recorded as a gain during the three months ended March 31, 2016. The final $0.3 million is to be paid when Tres Amigas achieves the earlier of certain agreed-upon financing conditions which is expected to occur during the first half of fiscal 2016. See Note 15, “Minority Investments”, for further information about such investment.

Results of Operations

Fiscal Years Ended March 31, 2016 and March 31, 2015

Revenues

Total revenues increased by 36% to $96.0 million in fiscal 2015 from $70.5 million in fiscal 2014. Our revenues are summarized as follows (in thousands):

	Fiscal Years Ended March 31,	
	2016	2015
Revenues:		

Wind	$68,883	$51,307
Grid	27,140	19,223
Total	$96,023	$70,530

Revenues in our Wind business unit consist of revenues from wind turbine electrical systems and core components, wind turbine license and development contracts, service contracts and consulting arrangements. Our Wind business unit accounted for 72% of total revenues in fiscal 2015 and 73% in fiscal 2014. Revenues in the Wind business unit increased 34% to $68.9 million in fiscal 2015 from $51.3 million in fiscal 2014. The increase in Wind business unit revenues was driven primarily by higher revenues from Inox in India.

Revenues in our Grid business unit consist of revenues from our FACTS products, including D-VAR and D-SVC product sales, HTS wire sales, revenues under government-sponsored electric utility projects, license contracts and other prototype development contracts. We also engineer, install and commission our products on a turnkey-basis for some customers. The Grid business unit accounted for 28% of total revenues in fiscal 2015 and 27% in fiscal 2014. Grid revenue increased 41% to $27.1 million in fiscal 2015 from $19.2 million in fiscal 2014. The increase in revenues was primarily due to higher D-VAR system revenues and the license to BASF.

Revenues from Project HYDRA and Project REG represented 6% and 9% of our Grid business unit's revenue for fiscal 2015 and 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 have substantially completed the first phase of the project which among other things, has resulted in the creation of a detailed deployment plan. In the fiscal year ended March 31, 2015, DHS committed funding of $1.5 million for this phase of the project. During the fiscal year ended March 31, 2016, 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.

Cost of Revenues and Gross Margin

Cost of revenues increased by 10% to $74.0 million in fiscal 2015, compared to $67.4 million in fiscal 2014. Gross margin increased to 22.9% in fiscal 2015 from 4.4% in fiscal 2014. The increase in gross margin in fiscal 2015 was driven primarily by higher revenues, including increased royalty and license revenue compared to fiscal 2014.

Operating Expenses

Research and development

R&D expenses increased by 4% to $12.3 million, or 13% of revenue in fiscal 2015, compared to $11.9 million, or 17% of revenue, in fiscal 2014. The slight increase is primarily the result of new product development expenses in our Grid segment, partially offset by lower stock compensation expense.

Selling, general, and administrative

Selling, general and administrative ("SG&A") expenses decreased by 1% to $28.9 million, or 30% of revenue in fiscal 2015 from $29.2 million, or 41% of revenue, in fiscal 2014. The slight decrease in SG&A expenses in fiscal 2015 was primarily due to lower stock compensation expense, partially offset by the reversal of legal costs for the Catlin insurance claim as result of our settlement agreement with Catlin Insurance Company ("Catlin") in fiscal 2014.

Amortization of acquisition related intangibles

We recorded $0.2 million in both fiscal 2015 and fiscal 2014 in amortization expense related to our core technology and know-how, and trade names and trademark intangible assets.

Restructuring and impairments

We recorded restructuring and impairment charges of $0.8 million in fiscal 2015, compared to $5.4 million in fiscal 2014. For fiscal 2015, this consists primarily of an impairment charge of $0.7 million to fully impair our investment in Tres Amigas. For fiscal 2014, this consists of restructuring charges of $0.6 million for employee severance costs, and $1.3 million for facility and relocation costs primarily for the consolidation of our Grid manufacturing operations into our Devens facility. In addition, we recorded an impairment charge of $3.5 million to fully impair our minority

investment in Blade Dynamics.

Operating loss

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

	Fiscal Years Ended March 31,	
	2016	2015
Operating loss:		
Wind	$(1,256)	$(14,321)
Grid	(14,835)	(26,890)
Unallocated corporate expenses	(4,027)	(11,306)
Total	$(20,118)	$(52,517)

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Wind generated an operating loss of $1.3 million in fiscal 2015 compared to an operating loss of $14.3 million in fiscal 2014. The decrease in operating loss for fiscal 2015 was primarily attributable to increased revenues, partially offset by a lower consumption of previously written-off inventory used in our electrical control systems. Additionally, fiscal 2014 included a one-time charge of $9.0 million relating to the arbitration award to Ghodawat.

Grid operating loss decreased to $14.8 million in fiscal 2015 from $26.9 million in fiscal 2014. The decrease in operating loss for fiscal 2015 is primarily attributed to higher D-VAR system revenues, increased production which resulted in better factory absorption, and license revenue recognized from the license agreement with BASF in the fourth quarter of fiscal 2015.

Unallocated corporate expenses in fiscal 2015 included restructuring and impairment charges of $0.8 million and $3.2 million in stock-based compensation expense. Unallocated corporate expenses in fiscal 2014 included restructuring and impairment charges of $5.4 million and $5.9 million in stock-based compensation expense.

Change in fair value of derivatives and warrants

The change in fair value of derivatives and warrants resulted in a loss of $0.2 million in fiscal 2015 and a gain of $4.0 million in fiscal 2014. The changes in the fair value were primarily due to changes in our stock price, which is a key valuation metric on the derivative liabilities.

Gain on sale of minority interest

We recorded a gain on sale of minority interests of $3.1 million in the fiscal year ended March 31, 2016, related to the sale of our investments in Blade Dynamics and Tres Amigas. Both of these investments had been fully impaired at the time of their sale.

Interest expense, net

Interest expense, net was $1.0 million in fiscal 2015 compared to $1.9 million for fiscal 2014. The decrease in interest expense, net was primarily driven by lower interest expense due to the maturity of one of our term loans with Hercules Technology Growth Capital, Inc. (“Hercules”) in December 2014.

Other (expense) income, net

Other expense, net was $2.5 million in fiscal 2015, compared to other income, net of $1.6 million in fiscal 2014. The decrease in other income, net was due primarily to losses from foreign currency fluctuations as a result of the strengthening of the Euro against the U.S. dollar in fiscal 2015.

Income Taxes

We recorded an income tax expense of $2.4 million in fiscal 2015, compared to an income tax benefit of $0.2 million in fiscal 2014. The increase in income tax expense was driven primarily by increases in income taxes in foreign jurisdictions and foreign withholding taxes.

Certain asset write-offs in our foreign jurisdictions are considered permanent differences and are not tax deductible. Other asset write-offs, such as inventory and prepaid value-added taxes in China, are not currently deductible and result in deferred tax assets. Due to uncertainty around the realization of these deferred tax assets, they have been fully reserved as of the end of the fiscal years ended March 31, 2016, 2015 and, 2014, respectively.

Please refer to the “Risk Factors” section in Part I, Item 1A, for a discussion of certain factors that may affect our future results of operations and financial condition.

Fiscal Years Ended March 31, 2015 and March 31, 2014

Revenues

Total revenues decreased by 16% to $70.5 million in fiscal 2014 from $84.1 million in fiscal 2013. Our revenues are summarized as follows (in thousands):

	Fiscal Years Ended March 31,	
	2015	2014
Revenues:		
Wind	$51,307	$55,608
Grid	19,223	28,509
Total	$70,530	$84,117

Our Wind business unit accounted for 73% of total revenues in fiscal 2014 and 66% in fiscal 2013. Revenues in the Wind business unit decreased 8% to $51.3 million in fiscal 2014 from $55.6 million in fiscal 2013. The decrease in Wind business unit revenues was driven primarily by lower revenues in China partially offset by higher revenues from Inox in India.

The Grid business unit accounted for 27% of total revenues in fiscal 2014 and 34% in fiscal 2013. Grid revenue decreased 33% to $19.2 million in fiscal 2014 from $28.5 million in fiscal 2013. The decrease in revenues was primarily due to lower D-VAR system revenues.

Revenues from Project HYDRA and Project REG represented 9% and 7% of our Grid business unit's revenue for fiscal 2014 and 2013, respectively. Our revenues for these projects are derived by funding from DHS. 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 currently working on the first phase of the project which among other things, will result in the creation of a detailed deployment plan. Funding of $1.5 million for this phase of the project has been committed by DHS. Subsequent phases of the project involve the delivery of the REG system and the associated construction and deployment of the system in ComEd's grid. We will not begin these phases of the project until all parties agree to proceed. There can be no assurance that all parties will agree to proceed with the project.

Cost of Revenues and Gross Margin

Cost of revenues decreased by 7% to $67.4 million in fiscal 2014, compared to $72.9 million in fiscal 2013. Gross margin decreased to 4.4% in fiscal 2014 from 13.4% in fiscal 2013. The decrease in gross margin in fiscal 2014 was driven primarily by higher 100% margin revenue from Chinese and other customers in fiscal 2013 compared to fiscal 2014, partially offset by higher usage of previously written off inventory used in our electrical control systems in fiscal 2014.

Operating Expenses

Research and development

R&D expenses decreased by $0.3 million to $11.9 million, or 17% of revenue for fiscal 2014 compared to $12.2 million, or 14% of revenue for fiscal 2013. The decrease in fiscal 2014 was driven primarily due to the decreased headcount and related labor spending as a result of restructuring activities undertaken in fiscal 2013, as well as a

reduction in spending required to support license and development for our Wind customers.

Selling, general, and administrative

SG&A expenses decreased by 22% to $29.2 million, or 41% of revenue in fiscal 2014 from $37.2 million, or 44% of revenue in fiscal 2013. The decrease in SG&A expenses in fiscal 2014 was primarily due to lower stock compensation expense and the reversal of legal costs for the Catlin insurance claim as result of our settlement agreement with Catlin.

Arbitration award expense

We recorded an arbitration award expense of $9.0 million in the year ended March 31, 2015 following a decision by the ICC Court on August 29, 2014, finding us liable for damages of approximately €8.3 million under a breach of contract proceeding against Ghodawat Energy Pvt. Ltd. (“Ghodawat”). We entered into an agreement to settle this claim with Ghodawat for €7.45 million on February 4, 2015. We paid the settlement amount on February 10, 2015. As a result of this settlement, we recorded a reversal of an excess accrual of approximately $1.2 million during the fourth quarter of fiscal 2014.

Amortization of acquisition related intangibles

We recorded $0.2 million in fiscal 2014 and $0.3 million in fiscal 2013 in amortization expense related to our core technology and know-how, and trade names and trademark intangible assets.

Restructuring and impairments

We recorded restructuring and impairment charges of $5.4 million in fiscal 2014, compared to $3.0 million in fiscal 2013. For fiscal 2014, this consists of restructuring charges of $0.6 million for employee severance costs, and $1.3 million for facility and relocation costs primarily for the consolidation of our Grid manufacturing operations into our Devens facility. In addition, we recorded an impairment charge of $3.5 million to fully impair our minority investment in Blade Dynamics. For fiscal 2013, the restructuring and impairment charges primarily consisted of employee severance costs of $1.7 million and an impairment charge of $1.3 million for our minority investment in Blade Dynamics.

Operating loss

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

	Fiscal Years Ended March 31,	
	2015	2014
Operating loss:		
Wind	$(14,321)	$(5,213)
Grid	(26,890)	(22,523)
Unallocated corporate expenses	(11,306)	(13,693)
Total	$(52,517)	$(41,429)

Wind generated an operating loss of $14.3 million in fiscal 2014 compared to an operating loss of $5.2 million in fiscal 2013. The increase in operating loss for fiscal 2014 was primarily attributable to lower revenues and the approximately $9.0 million arbitration award expense associated with the Ghodowat settlement, partially offset by the reversal of legal expenses associated with the Catlin settlement.

Grid operating loss increased to $26.9 million in fiscal 2014 from $22.5 million in fiscal 2013. The increase in operating loss for fiscal 2014 is primarily attributed to the lower revenues.

Unallocated corporate expenses in fiscal 2014 included restructuring and impairment charges of $5.4 million and $5.9 million in stock-based compensation expense. Unallocated corporate expenses in fiscal 2013 included restructuring and impairment charges of $3.0 million and $10.7 million in stock-based compensation expense.

Change in fair value of derivatives and warrants

The change in fair value of derivatives and warrants resulted in gains of $4.0 million in fiscal 2014 and $1.9 million in fiscal 2013. The gains were driven by mark-to-market adjustments due primarily to our lower stock price on the derivative liabilities and the extinguishment of our unsecured, senior convertible note (the "Exchanged Note") with Capital Ventures International ("CVI") in fiscal 2013. See "Loss on extinguishment of debt" below.

Loss on extinguishment of debt

We recorded a $5.2 million loss in fiscal 2013 related to extinguishment of the Exchanged Note in exchange for approximately 663,000 shares of common stock.

Interest expense, net

Interest expense, net was $1.9 million in fiscal 2014 compared to $9.7 million for fiscal 2013. The decrease in interest expense, net was primarily driven by lower non-cash interest expense due to the conversion of the remaining outstanding balance on the Exchanged Note into common stock on March 2, 2014.

Other income (expense), net

Other income, net was $1.6 million in fiscal 2014, compared to other expense, net of $1.0 million in fiscal 2013. The increase in other income, net was due primarily to gains from foreign currency fluctuations as a result of the strengthening of the U.S. dollar against the Euro.

Income Taxes

We recorded an income tax benefit of $0.2 million in fiscal 2014, compared to income tax expense of $0.9 million in fiscal 2013. The decrease in income tax expense was driven primarily by a reversal of an uncertain tax position in Austria upon completion of tax audits for prior tax periods.

Certain asset write-offs in our foreign jurisdictions are considered permanent differences and are not tax deductible. Other asset write-offs, such as inventory and prepaid value-added taxes in China, are not currently deductible and result in deferred tax assets. Due to uncertainty around the realization of these deferred tax assets, they have been fully reserved as of the end of the fiscal years ended March 31, 2015 and March 31, 2014.

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-K, 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 interest in minority investments, 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 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):

	Year ended March 31,		
	2016	2015	2014
Net loss	$(23,139)	$(48,656)	$(56,258)
Gain on sale of interest in minority investments, net of tax effect	(2,919)	-	-
Stock-based compensation	3,248	5,936	10,696
Arbitration award expense	-	8,987	-
Amortization of acquisition-related intangibles	157	157	287
Restructuring and impairment charges	779	5,366	2,998
Sinovel litigation	-	-	18
Consumption of zero cost-basis inventory	(4,960)	(7,982)	(4,308)
Prepaid VAT reserve	-	-	1,426
Change in fair value of derivatives and warrants	228	(3,963)	(1,872)
Loss on extinguishment of debt	-	-	5,197
Non-cash interest expense	359	566	7,713
Non-GAAP net loss	$(26,247)	$(39,589)	$(34,103)
Non-GAAP net loss per share	$(1.99)	$(4.67)	$(5.45)
Weighted average shares outstanding - basic and diluted	13,178	8,477	6,262

We generated a non-GAAP net loss of $26.2 million, or $1.99 per share, for fiscal 2015, compared to $39.6 million, or $4.67 per share, for fiscal 2014, and $34.1 million, or $5.45 per share, for fiscal 2013. The decrease in non-GAAP net loss in fiscal 2015 over 2014 was primarily related to higher revenues in both business units, as well as higher gross margin as previously discussed. The increase in non-GAAP net loss in fiscal 2014 over 2013 was primarily related to lower revenues in fiscal 2014 and mix of higher margin revenue with no cost in fiscal 2013 from Chinese and other customers.

Liquidity and Capital Resources

Our cash requirements depend on numerous factors, including the successful completion of our product development activities, our ability to commercialize our 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 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, Inox agreed that 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. During the fourth quarter of fiscal 2015, Inox made the upfront payment of $6.0 million required under the license agreement, but as of the date of this Annual Report it has not made the $2.0 million advance payment required under the supply contract. These agreements are expected to provide a foundation for the business as we pursue our longer-term objectives. Significant deviations from our business plan with regard to these factors and events, including any prolonged disruption in our revenues with our largest customers, 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.

At March 31, 2016, we had cash, cash equivalents, and restricted cash of $40.7 million, compared to $24.5 million at March 31, 2015, an increase of $16.2 million. Our cash and cash equivalents, and restricted cash are summarized as follows (in thousands):

	March 31, 2016	March 31, 2015
Cash and cash equivalents	$39,330	$ 20,490
Restricted cash	1,391	4,058
Total cash, cash equivalents, and restricted cash	$40,721	$ 24,548

As of March 31, 2016, we had approximately $22.0 million of cash, cash equivalents, and restricted cash in foreign bank accounts, with a majority of this cash located in Europe. The increase in total cash and cash equivalents, and restricted cash was due primarily to cash provided by financing activities. See further discussion below.

Net cash used in operating activities was $4.6 million, $32.7 million and $13.3 million in fiscal 2015, 2014 and 2013, respectively. The decrease in net cash used in operations in fiscal 2015 compared to fiscal 2014 was due primarily to lower net loss for the reasons discussed above. The increase in fiscal 2014 compared to fiscal 2013 was primarily driven by our higher net loss exclusive of non-cash items, the arbitration settlement payment to Ghodawat, and less cash generated by working capital in fiscal 2014 compared to fiscal 2013.

Net cash provided by investing activities was $4.9 million, $1.8 million and $4.0 million in fiscal 2015, 2014 and 2013, respectively. The increase in net cash provided by investing activities in fiscal 2015 compared to fiscal 2014 was due primarily to the proceeds from the sale of our minority interests in Blade Dynamics and Tres Amigas. The decrease in net cash provided by investing activities in fiscal 2014 compared to fiscal 2013 was driven primarily by a decrease in the change for restricted cash.

Net cash provided by financing activities was $18.2 million, $8.8 million and $12.8 million in fiscal 2015, 2014 and 2013, respectively. The increase in net cash provided by financing activities in fiscal 2015 compared to fiscal 2014 was primarily due to net proceeds of $22.3 million from the issuance of 4.0 million shares of common stock in April 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. See Note 10, "Warrants and

Derivative Liabilities" for further information on the November 2014 equity offering. Additionally, amounts used to repay 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. The decrease in cash provided by financing activities in fiscal 2014 compared to fiscal 2013 is primarily due to the net proceeds received from our debt arrangements in fiscal 2013 and an increase in repayment under these debt arrangements in fiscal 2014, partially offset by net proceeds from a public equity offering in November 2014.

At March 31, 2016 and 2015, we had $0.5 million and $2.8 million, respectively, of restricted cash included in current assets, and $0.9 million and $1.2 million, respectively of restricted cash included in long-term assets. These amounts included in restricted cash primarily represent deposits to secure surety bonds and letters of credit for various customer contracts. These deposits are held in interest bearing accounts.

On November 15, 2013, we amended our Loan and Security Agreement (the "Term Loan") with Hercules and entered into a new term loan (the "Term Loan B"), borrowing $10.0 million. After closing fees and expenses, we received net proceeds of $9.8 million. The Term Loan B 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 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 Term Loan B in equal monthly installments which will end on November 1, 2016.

On December 19, 2014, we entered into another amendment with Hercules (the "Hercules Second Amendment") and entered into a new term loan (the "Term Loan C"), borrowing an additional $1.5 million (we collectively refer to the Term Loan B, and Term Loan C as the "Term Loans"). After closing fees and expenses, the net proceeds from the Term Loan C were $1.4 million. The Term Loan C bears the same interest rate as the Term Loan B. We are making interest only payments until maturity on June 1, 2017, when the loan is scheduled to be repaid in its entirety.

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 March 31, 2016, 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 Annual Report on Form 10-K. 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 March 31, 2016, had an accumulated deficit of $928.2 million. In addition, we have experienced recurring negative operating cash flows. At March 31, 2016, we had cash and cash equivalents of $39.3 million, as compared to cash used in operations of $4.6 million for the year ended March 31, 2016. In April 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 $2.8 million from the sale, which was recorded as a gain during the year ended March 31, 2016. Additionally, under the terms of the purchase agreement, we may be entitled to receive up to an additional $1.2 million in proceeds, upon the successful achievement of certain milestones by Blade Dynamics over the next three years. On March 11, 2016, we sold 100% of our minority investment in Tres Amigas to an investor for $0.6 million. We received $0.3 million according to the terms of the purchase agreement upon closing, which was recorded as a gain during the three months ended March 31, 2016. The final $0.3 million is to be paid when Tres Amigas achieves the earlier of certain agreed-upon financing conditions which is expected to occur during the first half of fiscal 2016. In addition, in December 2015, we entered into a set of strategic agreements

valued at approximately $210.0 million with Inox, as discussed above. 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, under which we have committed to purchase certain minimum quantities of goods or services on an annual basis.

Contractual Obligations

Contractual obligations represent future cash commitments and liabilities under agreements with third parties. Operating leases include minimum payments under leases for our facilities and certain equipment; see Item 2, “Properties,” for more information. Purchase commitments represent enforceable and legally binding agreements with suppliers to purchase goods or services. As of March 31, 2016, we are committed to make the following payments under contractual obligations (in thousands):

	Payments Due by Period				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 Years
Non-cancellable purchase commitments	$20,403	$20,403	$-	$ -	$ -
Senior Term Loans	4,167	2,667	1,500	-	-
Operating leases (rent)	2,029	1,047	653	329	-
Operating leases (other)	170	88	69	13	-
Total contractual obligations	$26,769	$24,205	$2,222	$ 342	$ -

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“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 Balance Sheet Classification of Deferred Taxes. This ASU simplifies the presentation of deferred income taxes and requires that deferred tax assets and liabilities be classified as non-current in a statement of financial position. We early-adopted ASU 2015-17 effective January 1, 2016 on a prospective basis. Adoption of this ASU resulted in all deferred tax assets and liabilities being presented as non-current in the Consolidated Balance Sheet as of January 1, 2016. No prior periods were retrospectively adjusted.

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.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently evaluating the effects adoption of this guidance will have on

our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08 Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments in ASU 2016-08 clarify the implementation guidance on principal versus agent consideration. 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 2016-08 may have on our current practices.

In March 2016, the FASB issued ASU 2016-09 Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in ASU 2016-09 will simplify several aspects of the accounting for share-based payment transactions, including tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The ASU is effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. We are currently evaluating the impact, if any, the adoption of ASU 2016-09 may have on our current practices.

In April 2016, the FASB issued ASU 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments in ASU 2016-10 will clarify the identification of performance obligations and the licensing implementation guidance. 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 2016-10 may have on our current practices.

We do not believe that other recently issued accounting pronouncements will have a material impact on our financial statements.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenue 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. Our accounting policies that involve the most significant judgments and estimates are as follows:

- Revenue recognition;
- Accounts receivable;
- Inventory;
- Valuation of long-lived assets;
- Income taxes;
- Stock-based compensation;
- Contingencies;
- Product warranty;
- Debt; and
- Fair value of financial instruments.

Revenue recognition

We recognize revenue for product sales upon customer acceptance, which can occur at the time of delivery, installation, or post-installation, where applicable, provided persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectability is reasonably assured. Existing customers are subject to ongoing credit evaluations based on payment history and other factors. If it is determined during the arrangement that collectability is not reasonably assured, revenue is recognized on a cash basis of accounting. Certain of our contracts involve retention amounts which are contingent upon meeting certain performance requirements through the expiration of the contract warranty periods. For contractual arrangements that involve retention, we recognize revenue for these amounts upon the expiration of the warranty period, meeting the performance requirements and when collection of the fee is reasonably assured.

For certain arrangements, such as contracts to perform research and development, prototype development contracts and certain product sales, we record revenues using the percentage-of-completion method, measured by the relationship of costs incurred to total estimated contract costs. Percentage-of-completion revenue recognition accounting is predominantly used on certain turnkey power systems installations for electric utilities and long-term prototype development contracts with the U.S. government. We follow this method since reasonably dependable estimates of the revenues and costs applicable to various stages of a contract can be made. However, the ability to reliably estimate total costs at completion is challenging, especially on long-term prototype development contracts, and could result in future changes in contract estimates. For contracts where reasonably dependable estimates of the revenues and costs cannot be made, we follow the completed-contract method.

We enter into sales arrangements that may provide for multiple deliverables to a customer. Sales of certain products may include extended warranty and support or service packages, and at times include performance bonds. As these contracts progress, we continually assess the probability of a payout from the performance bond. Should we determine that such a payout is likely; we would record a liability. We would reduce revenue to the extent a liability is recorded. In addition, we enter into licensing arrangements that include training services.

Deliverables are separated into more than one unit of accounting when (1) the delivered element(s) have value to the customer on a stand-alone basis, and (2) delivery of the undelivered element(s) is probable and substantially in our control. In general, revenues are separated between the different product shipments which have stand-alone value, and the various services to be provided. Revenue for product shipments is recognized in accordance with our policy for product sales, while revenues for the services are recognized over the period of performance. We identify all goods and/or services that are to be delivered separately under a sales arrangement and allocate revenue to each deliverable based on the element's fair value as determined by vendor-specific objective evidence ("VSOE"), which is the price charged when that element is sold separately, or third-party evidence ("TPE"). When VSOE and TPE are unavailable, fair value is based on our best estimate of selling price utilizing a cost plus reasonable margin consistent with how we have set pricing historically for similar products and services. When our estimates are used to determine fair value, we make our estimates using reasonable and objective evidence to determine the price. We review VSOE and TPE at least annually. If we conclude we are unable to establish fair values for one or more undelivered elements within a multiple-element arrangement using VSOE then we use TPE or the best estimate of the selling price for that unit of accounting, being the price at which the vendor would transact if the unit of accounting were sold by the vendor regularly on a standalone basis.

Our license agreements provide either for the payment of contractually determined paid-up front license fees or milestone based payments in consideration for the grant of rights to manufacture and or sell products using our patented technologies or know-how. Some of these agreements provide for the release of the licensee from intellectual property infringements past and future claims. When we can determine that we have no further obligations other than the grant of the license and that we have fully transferred the technology knowhow, we will recognize the revenue. In certain arrangements we may also agree to provide training services to transfer the technology know-how. In other license arrangements we have determined that the licenses have no standalone value to the customer and are not separable from training services as we can only fully transfer the technology knowhow through the training component. Accordingly, we account for these arrangements as a single unit of accounting, and recognize revenue over the period of its performance and milestones that have been achieved. Costs for these arrangements are expensed as incurred.

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. We determined this license has standalone value to the customer and can be separated from the supply contract. The license agreement includes customer acceptance criteria to demonstrate the know-how to manufacture the electrical control systems has been fully transferred. We will defer revenue recognition for the allocable portion of the license until this acceptance criteria has been met.

In March 2016, we entered into a set of agreements to jointly develop an advanced low cost manufacturing process for second generation high temperature superconductor wire with BASF. In the joint development, our manufacturing know-how for our Amperium® superconductor wire and BASF's chemical solution deposition production technology will be combined. As part of the agreements, we also entered into a royalty-bearing, non-exclusive license under which we will provide BASF a specified portion of our second generation (2G) high temperature superconductor (HTS) wire manufacturing technology. We determined that the license rights we provide to BASF have standalone value from the ongoing joint development effort. We transferred the license rights to BASF in March 2016 recording $3.0M of license revenues in the fiscal year ended March 31, 2016 as there were no remaining obligations associated with these rights. Any newly developed intellectual property as a result of the joint development will be owned by BASF. Should this development effort be successful, we have the right to incorporate this new technology into our manufacturing process on a royalty-free basis. BASF has also agreed to make guaranteed annual payments to us through 2017 and has an option to continue the joint development through 2018. We will record revenue for the research and development services we are providing over the term of the arrangement.

We have elected to record taxes collected from customers on a net basis and do not include tax amounts in revenue or costs of revenue.

Customer deposits received in advance of revenue recognition are recorded as deferred revenue until customer acceptance is received. Deferred revenue also represents the amount billed to and/or collected from commercial and government customers on contracts which permit billings to occur in advance of contract performance/revenue recognition.

Accounts Receivable

Accounts receivable consist of amounts owed by commercial companies and government agencies. Accounts receivable are stated net of allowances for doubtful accounts. Our accounts receivable relate principally to a limited number of customers. As of March 31, 2016, Inox accounted for approximately 84% of our total receivable balance, with no other customers accounting for greater than 10% of the balance. As of March 31, 2015, Inox accounted for approximately 56% of our total receivable balance, with no other customers accounting for greater than 10% of the balance. Changes in the financial condition or operations of our customers may result in delayed payments or non-payments which would adversely impact our cash flows from operating activities and/or our results of operations. As such we may require collateral, advanced payment or other security based upon the customer history and/or creditworthiness. In determining the allowance for doubtful accounts, we evaluate the collectability of accounts receivable based primarily on the probability of recoverability based on historical collection and write-off experience, the age of past due receivables, specific customer circumstances, and current economic trends. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payment, additional allowances may be required. Failure to accurately estimate the losses for doubtful accounts and ensure that payments are received on a timely basis could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Inventory

Inventories include material, direct labor and related manufacturing overhead, and are stated at the lower of cost or market determined on a first-in, first-out basis. We record inventory when we take delivery and title to the product according to the terms of each supply contract.

Program costs may be deferred and recorded as inventory on contracts on which costs are incurred in excess of approved contractual amounts and/or funding, if future recovery of the costs is deemed probable.

At each balance sheet date, we evaluate our ending inventories for excess quantities and obsolescence. Inventories that management considers excess or obsolete are reserved. Management considers forecasted demand in relation to the inventory on hand, competitiveness of product offerings, market conditions and product life cycles when determining excess and obsolescence and net realizable value adjustments. Once inventory is written down and a new cost basis is established, it is not written back up if demand increases.

We recorded inventory reserves of $2.7 million during fiscal 2015 and $1.4 million during fiscal 2014, respectively, based on evaluating our ending inventories for excess quantities and obsolescence. We recorded an inventory reserve of approximately $63.9 million during fiscal 2010 based on our evaluation of forecasted demand in relation to the inventory on hand and market conditions surrounding our products as a result of the assumption that Sinovel and certain other customers in China would fail to meet their contractual obligations and demand that was previously forecasted would fail to materialize. If, in any period, we are able to sell inventories that were not valued or that had been reserved in a previous period, related revenues would be recorded without any offsetting charge to cost of revenues, resulting in a net benefit to our gross profit in that period. In fiscal 2015, 2014, and 2013, $5.0 million, $8.0 million, and $4.3 million respectively, were recognized as a net benefit to gross profit for inventory previously reserved in fiscal year 2010.

Valuation of long-lived assets

We periodically evaluate our long-lived assets, consisting principally of fixed and amortizable intangible assets for potential impairment. In accordance with the applicable accounting guidance for the treatment of long-lived assets, we review the carrying value of our long-lived assets or asset group that is held and used, including intangible assets subject to amortization, for impairment whenever events and circumstances indicate that the carrying value of the assets may not be recoverable. Under the held and used approach, the asset or asset group to be tested for impairment

should represent the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. The determination of our asset groups involves a significant amount of judgment, assumptions and estimates. We evaluate our long-lived assets whenever events or circumstances suggest that the carrying amount of an asset or group of assets may not be recoverable from the estimated undiscounted future cash flows.

Our judgments regarding the existence of impairment indicators are based on market and operational performance. Indicators of potential impairment include:

- a significant change in the manner in which an asset group is used;
- a significant decrease in the market value of an asset group;
- identification of other impaired assets within a reporting unit;
- a significant adverse change in its business or the industry in which it is sold;

- a current period operating cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the asset group; and
- significant advances in our technologies that require changes in our manufacturing process.

Income taxes

Our provision for income taxes is composed of a current and a deferred portion. The current income tax provision is calculated as the estimated taxes payable or refundable on tax returns for the current year. The deferred income tax provision is calculated for the estimated future tax effects attributable to temporary differences and carryforwards using expected tax rates in effect in the years during which the differences are expected to reverse. During November 2015, the FASB issued ASU 2015-17, “Balance Sheet Classification of Deferred Taxes”, which simplifies the presentation of deferred income taxes. This ASU requires that deferred tax assets and liabilities be classified as non-current in a statement of financial position. We early-adopted ASU 2015-17 effective January 1, 2016 on a prospective basis. Adoption of this ASU resulted in all deferred tax assets and liabilities being presented as non-current in the Consolidated Balance Sheet as of January 1, 2016. No prior periods were retrospectively adjusted.

We regularly assess our ability to realize our deferred tax assets. Assessments of the realization of deferred tax assets require that management consider all available evidence, both positive and negative, and make significant judgments about many factors, including the amount and likelihood of future taxable income. Based on all the available evidence, we have recorded valuation allowances to reduce our deferred tax assets to the amount that is more likely than not to be realizable due to the taxable losses that have been incurred since our inception and uncertainty around our future profitability.

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 that 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 of being realized upon ultimate settlement. We reevaluate these uncertain tax positions on a quarterly basis. This 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. We include interest and penalties related to gross unrecognized tax benefits within the provision for income taxes. See Note 11, “Income Taxes,” of our consolidated financial statements for further information regarding our income tax assumptions and expenses.

We evaluate our permanent reinvestment assertions with respect to foreign earnings at each reporting period. We have not recorded a deferred tax asset for the temporary difference associated with the excess of the tax basis over the book basis in our Austrian and Chinese subsidiaries as the future tax benefit is not expected to reverse in the foreseeable future. We have recorded a deferred tax liability as of March 31, 2016 for the undistributed earnings of our remaining foreign subsidiaries for which we can no longer assert are permanently reinvested. The total amount of undistributed earnings available to be repatriated at March 31, 2016 was $1.2 million resulting in the recording of a $0.4 million net deferred federal and state income tax liability. See Note 11, “Income Taxes,” of our consolidated financial statements for the results of this assessment.

Stock-based compensation

We measure compensation cost arising from the grant of share-based payments to employees at fair value and recognize such cost over the period during which the employee is required to provide service in exchange for the award, usually the vesting period. Total stock-based compensation expense recognized during the fiscal years ended March 31, 2016, 2015, and 2014 was $3.2 million, $5.9 million, and $10.7 million, respectively. For awards with service conditions only, we recognize compensation cost on a straight-line basis over the requisite service/vesting period. For awards with performance conditions, accruals of compensation cost are made based on the probable outcome of the performance conditions. The cumulative effect of changes in the probability outcomes are recorded in

the period in which the changes occur.

Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the input of highly subjective assumptions, including the expected life of the share-based payment awards and stock price volatility. Management determined that expected volatility rates should be estimated based on historical and implied volatilities of our common stock. The expected term represents the average time that the options that vest are expected to be outstanding based on the vesting provisions and our historical exercise, cancellation and expiration patterns. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if circumstances change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate an expected forfeiture rate and only recognize expense for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period. See Note 12, "Stockholders' Equity," of our consolidated financial statements for further information regarding our stock-based compensation assumptions and expenses.

Contingencies

From time to time, we are involved in legal and administrative proceedings and claims of various types. 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 the loss is not probable or cannot be reasonably estimated, a liability is not recorded in our consolidated financial statements. If, with respect to a matter, it is not both probable to result in liability and the amount of loss cannot be reasonably estimated, an estimate of possible loss or range of loss shall be disclosed unless such an estimate cannot be made. We do not recognize gain contingencies until they are realized. Legal costs incurred in connection with loss contingencies are expensed as incurred. During the fiscal year ended March 31, 2015, we reversed legal expenses of approximately $2.2 million incurred in connection with the Ghodawat arbitration that were covered by our Catlin settlement. See Note 13, “Commitments and Contingencies”, of our consolidated financial statements for further information.

Product Warranty

Warranty obligations are incurred in connection with the sale of our products. We generally provide a one to three year warranty on our products, commencing upon installation. The costs incurred to provide for these warranty obligations are estimated and recorded as an accrued liability at the time of sale. Future warranty costs are estimated based on historical performance rates and related costs to repair given products. The accounting estimate related to product warranty involves judgment in determining future estimated warranty costs. Should actual performance rates or repair costs differ from estimates, revision to the estimated warranty liability would be required.

Debt

For debt arrangements, we consider any embedded equity-linked components and account for the fair value of any embedded warrants and derivatives. We elect not to use the fair value option for recording debt arrangements and elect to record the debt at the stated value of the loan agreement on the date of issuance. Any other elements present are reviewed to determine if they are embedded derivatives requiring bifurcation and requiring valuation under the fair value option. Derivatives and warrants, which meet the condition to satisfy an obligation by issuing a variable number of equity shares, are recorded at fair value. The carrying value assigned to the host instrument will be the difference between the previous carrying value of the host instrument and the fair value of the warrants and derivatives. There is no immediate gain/loss from the initial recognition and measurement if the embedded derivative is accounted for separately from its host contract. There is an offsetting debt discount or premium as a result of the fair value assigned to the warrants and derivatives, as well as any debt issuance costs, which is amortized under the effective interest method over the term of the loan. Each reporting period, fair value is assessed for the warrants and derivatives with the change in value being recorded as other income/loss. See Note 9, “Debt,” and Note 10, “Warrants and Derivative Liabilities,” of our consolidated financial statements for a full discussion regarding the activity and financial impact for our debt, warrants and derivative liabilities.

Fair Value of Financial Instruments

Our financial instruments consist principally of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, derivatives, warrants, and the term loans. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses due to their short nature approximate fair value at March 31, 2016 and 2015. The estimated fair values have been determined through information obtained from market sources and management estimates. The fair value for the debt and warrant arrangements have been estimated by management based on the terms that we believe we could obtain in the current market for debt with the same terms and similar maturities. The 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 other (expense) income until the earlier of the warrants’ exercise or expiration. We rely on assumptions used in a lattice model to determine the fair value of the warrants. We have

appropriately valued the warrants within Level 3 of the valuation hierarchy.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We face exposure to financial market risks, including adverse movements in foreign currency exchange rates and changes in interest 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 and is not material. 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 income (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 in the U.S 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.

Foreign currency gains (losses), are included in net loss and were ($2.3) million, $2.7 million and ($0.1) million for the fiscal years ended March 31, 2016, 2015 and 2014, respectively.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

of American Superconductor Corporation

We have audited the accompanying consolidated balance sheets of American Superconductor Corporation and its subsidiaries (collectively, the “Company”) as of March 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, stockholders’ equity and cash flows for each of the three years in the period ended March 31, 2016, and the financial statement schedule of American Superconductor Corporation and subsidiaries listed in Item 15 as of March 31, 2016 and 2015 and for each of the three years in the period ended March 31, 2016. We also have audited the Company’s internal control over financial reporting as of March 31, 2016, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. The Company’s management is responsible for these financial statements and the financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements, and the financial statement schedule and an opinion on the Company’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Superconductor Corporation and its subsidiaries as of March 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2016, in conformity with accounting principles generally accepted in the United States of America, and in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein. Also in our opinion, American Superconductor Corporation and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2016, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

/s/ RSM US LLP

Boston, Massachusetts
May 31, 2016

AMERICAN SUPERCONDUCTOR CORPORATION

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(In thousands)

	March 31, 2016	March 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$39,330	$20,490
Accounts receivable, net	19,264	9,879
Inventory	18,512	20,596
Prepaid expenses and other current assets	5,778	10,764
Restricted cash	457	2,822
Total current assets	83,341	64,551
Property, plant and equipment, net	49,778	56,097
Intangibles, net	854	1,422
Restricted cash	934	1,236
Deferred tax assets	96	7,766
Other assets	315	2,753
Total assets	$135,318	$133,825
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$23,156	$21,615
Note payable, current portion, net of discount of $42 as of March 31, 2016 and $244 as of March 31, 2015	2,624	3,756
Derivative liabilities	3,227	2,999
Deferred revenue	12,000	11,019
Deferred tax liabilities	-	7,843
Total current liabilities	41,007	47,232
Note payable, net of discount of $133 as of March 31, 2016 and $290 as of March 31, 2015	1,367	3,877
Deferred revenue	9,269	2,756
Deferred tax liabilities	63	-
Other liabilities	63	67
Total liabilities	51,769	53,932
Commitments and contingencies (Note 13)		
Stockholders' equity:		
	141	96

Common stock, $0.01 par value, 75,000,000 shares authorized; 14,107,126 and 9,624,275 shares issued at March 31, 2016 and 2015, respectively		
Additional paid-in capital	1,011,813	985,921
Treasury stock, at cost, 51,506 and 34,067 shares at March 31, 2016 and 2015, respectively	(881)	(771)
Accumulated other comprehensive income (loss)	660	(308)
Accumulated deficit	(928,184)	(905,045)
Total stockholders' equity	83,549	79,893
Total liabilities and stockholders' equity	$135,318	$133,825

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

AMERICAN SUPERCONDUCTOR CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Fiscal Year Ended March 31,		
	2016	2015	2014
Revenues	$96,023	$70,530	$84,117
Cost of revenues	74,041	67,442	72,858
Gross profit	21,982	3,088	11,259
Operating expenses:			
Research and development	12,303	11,878	12,173
Selling, general and administrative	28,861	29,217	37,230
Arbitration award expense	-	8,987	-
Restructuring and impairments	779	5,366	2,998
Amortization of acquisition related intangibles	157	157	287
Total operating expenses	42,100	55,605	52,688
Operating loss	(20,118)	(52,517)	(41,429)
Change in fair value of derivatives and warrants	(228)	3,963	1,872
Loss on extinguishment of debt	-	-	(5,197)
Gain on sale of minority interests	3,092	-	-
Interest expense, net	(1,037)	(1,882)	(9,661)
Other (expense) income, net	(2,457)	1,596	(991)
Loss before income tax expense	(20,748)	(48,840)	(55,406)
Income tax expense (benefit)	2,391	(184)	852
Net loss	$(23,139)	$(48,656)	$(56,258)
Net loss per common share			
Basic	$(1.76)	$(5.74)	$(8.98)
Diluted	$(1.76)	$(5.74)	$(8.98)
Weighted average number of common shares outstanding			
Basic	13,178	8,477	6,262
Diluted	13,178	8,477	6,262

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

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AMERICAN SUPERCONDUCTOR CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

	Fiscal Year Ended March 31,		
	2016	2015	2014
Net loss	$(23,139)	$(48,656)	$(56,258)
Other comprehensive gain (loss), net of tax:			
Foreign currency translation gains (losses)	968	(2,147)	727
Total other comprehensive gain (loss), net of tax	968	(2,147)	727
Comprehensive loss	$(22,171)	$(50,803)	$(55,531)

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

AMERICAN SUPERCONDUCTOR CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Common Stock Number of Shares	Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balance at March 31, 2013	6,030	$60	$924,390	$ (313)	$ 1,112	$ (800,131)	$ 125,118
Issuance of common stock - ESPP	10	-	168	-	-	-	168
Issuance of common stock - restricted shares	178	2	500	-	-	-	502
Stock-based compensation expense	-	-	10,696	-	-	-	10,696
Issuance of stock for 401(k) match	21	-	425	-	-	-	425
Issuance of common stock-ATM, net of costs	487	5	7,453	-	-	-	7,458
Issuance of common stock to settle liabilities	1,167	12	23,468	-	-	-	23,480
Repurchase of treasury stock	-	-	-	(57)	-	-	(57)
Cumulative translation adjustment	-	-	-	-	727	-	727
Net loss	-	-	-	-	-	(56,258)	(56,258)
Balance at March 31, 2014	7,893	$79	$967,100	$ (370)	$ 1,839	$ (856,389)	$ 112,259
Issuance of common stock - ESPP	17	-	124	-	-	-	124
Issuance of common stock - restricted shares	301	3	(3)	-	-	-	-
Stock-based compensation expense	-	-	5,936	-	-	-	5,936
Issuance of stock for 401(k) match	35	-	392	-	-	-	392
Issuance of common stock-ATM, net of costs	375	4	5,835	-	-	-	5,839
Issuance of common stock-Hudson Bay Capital	909	9	5,216	-	-	-	5,225
Issuance of common stock to settle liabilities	94	1	1,322	-	-	-	1,323
Reverse stock split	-	-	(1)	-	-	-	(1)
Repurchase of treasury stock	-	-	-	(401)	-	-	(401)
Cumulative translation adjustment	-	-	-	-	(2,147)	-	(2,147)
Net loss	-	-	-	-	-	(48,656)	(48,656)
Balance at March 31, 2015	9,624	$96	$985,921	$ (771)	$ (308)	$ (905,045)	$ 79,893
Issuance of common stock - ESPP	8	-	30	-	-	-	30
Issuance of common stock - restricted shares	409	4	(4)	-	-	-	-
Stock-based compensation expense	-	-	3,248	-	-	-	3,248
Issuance of stock for 401(k) match	66	1	376	-	-	-	377
Issuance of common stock-equity offering	4,000	40	22,242	-	-	-	22,282
Repurchase of treasury stock	-	-	-	(110)	-	-	(110)

Cumulative translation adjustment	-	-	-	-	968	-	968
Net loss	-	-	-	-	-	(23,139)	(23,139)
Balance at March 31, 2016	14,107	$ 141	$ 1,011,813	$ (881)	$ 660	$ (928,184)	$ 83,549

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

AMERICAN SUPERCONDUCTOR CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Fiscal Year Ended March 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net loss	$(23,139)	(48,656)	$(56,258)
Adjustments to reconcile net loss to net cash used in operations:			
Depreciation and amortization	7,972	9,554	10,615
Stock-based compensation expense	3,248	5,936	10,696
Impairment of minority interest investments	746	3,464	1,265
Provision for excess and obsolete inventory	2,713	1,386	316
Write-off prepaid taxes	289	-	1,426
Gain on sale from minority interest investments	(3,092)	-	-
Loss from minority interest investments	356	743	1,008
Change in fair value of derivatives and warrants	228	(3,963)	(1,872)
Loss on extinguishment of debt	-	-	5,197
Reversal of Catlin legal costs	-	(2,220)	-
Non-cash interest expense	359	566	7,713
Other non-cash items	1,462	(2,436)	1,980
Changes in operating asset and liability accounts:			
Accounts receivable	(9,318)	(2,677)	11,379
Inventory	(782)	(1,887)	13,043
Prepaid expenses and other current assets	5,608	(2,330)	12,512
Accounts payable and accrued expenses	1,543	5,579	(10,861)
Deferred revenue	7,248	4,265	(21,426)
Net cash used in operating activities	(4,559)	(32,676)	(13,267)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(1,201)	(737)	(278)
Proceeds from the sale of property, plant and equipment	47	18	54
Change in restricted cash	2,669	2,248	4,669
Proceeds from sale of minority interests	3,092	-	-
Change in other assets	266	280	(436)
Net cash provided by investing activities	4,873	1,809	4,009
Cash flows from financing activities:			
Employee taxes paid related to net settlement of equity awards	(110)	(401)	(57)
Proceeds from the issuance of debt, net of expenses	-	1,422	9,842
Repayment of debt	(4,000)	(7,295)	(4,615)
Proceeds from public equity offering, net	22,282	14,933	7,458
Proceeds from exercise of employee stock options and ESPP	30	124	168
Net cash provided by financing activities	18,202	8,783	12,796
Effect of exchange rate changes on cash and cash equivalents	324	(540)	333
Net increase/(decrease) in cash and cash equivalents	18,840	(22,624)	