AMERICAN SUPERCONDUCTOR CORP /DE/
Form 10-Q
July 31, 2018

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

FORM 10-Q

x Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: June 30, 2018
¨ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.
Commission File Number: 0-19672

American Superconductor Corporation
(Exact name of registrant as specified in its charter)

Delaware	04-2959321
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
114 East Main St. Ayer, Massachusetts	01432
(Address of principal executive offices)	(Zip Code)

(978) 842-3000
(Registrant’s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
Shares outstanding of the Registrant’s common stock:

Common Stock, par value $0.01 per share	21,228,071
Class	Outstanding as of July 27, 2018

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AMERICAN SUPERCONDUCTOR CORPORATION
PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2018	March 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 26,750	$ 34,084
Accounts receivable, net	11,532	7,365
Inventory	18,353	19,780
Note receivable, current portion	3,000	3,000
Prepaid expenses and other current assets	4,709	2,947
Total current assets	64,344	67,176
Property, plant and equipment, net	11,554	12,513
Intangibles, net	3,145	3,230
Note receivable, long term portion, net of discount of $280 as of June 30, 2018 and net of discount of $336 and deferred gain of $105 as of March 31, 2018	2,720	2,559
Goodwill	1,719	1,719
Restricted cash	165	165
Deferred tax assets	516	542
Other assets	283	271
Total assets	$ 84,446	$ 88,175
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 15,144	$ 12,625
Derivative liabilities	1,681	1,217
Deferred revenue, current portion	11,433	13,483
Total current liabilities	28,258	27,325
Deferred revenue, long term portion	8,040	8,454
Deferred tax liabilities	110	110
Other liabilities	98	57
Total liabilities	36,506	35,946
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock	214	211
Additional paid-in capital	1,041,980	1,041,113
Treasury stock	(1,884)	(1,645)
Accumulated other comprehensive income	667	883
Accumulated deficit	(993,037)	(988,333)
Total stockholders' equity	47,940	52,229
Total liabilities and stockholders' equity	$ 84,446	$ 88,175

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

AMERICAN SUPERCONDUCTOR CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three months ended June 30,	
	2018	2017
Revenues	$12,607	$8,923
Cost of revenues	8,714	13,409
Gross margin	3,893	(4,486)
Operating expenses:		
Research and development	2,840	2,717
Selling, general and administrative	5,786	6,138
Amortization of acquisition-related intangibles	85	13
Restructuring	310	1,339
Total operating expenses	9,021	10,207
Operating loss	(5,128)	(14,693)
Change in fair value of warrants	(464)	925
Interest income (expense), net	201	(10)
Other income (expense), net	609	(1,374)
Loss before income tax (benefit) expense	(4,782)	(15,152)
Income tax (benefit) expense	(45)	100
Net loss	$(4,737)	$(15,252)
Net loss per common share		
Basic	$(0.23)	$(0.91)
Diluted	$(0.23)	$(0.91)
Weighted average number of common shares outstanding		
Basic	20,167	16,778
Diluted	20,167	16,778

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

AMERICAN SUPERCONDUCTOR CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	Three months ended June 30,	
	2018	2017
Net loss	$(4,737)	$(15,252)
Other comprehensive gain (loss), net of tax:		
Foreign currency translation gain (loss)	(216)	820
Total other comprehensive gain (loss), net of tax	(216)	820
Comprehensive loss	$(4,953)	$(14,432)

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

AMERICAN SUPERCONDUCTOR CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three months ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	$(4,737)	$(15,252)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	1,150	4,345
Stock-based compensation expense	785	754
Provision for excess and obsolete inventory	144	250
Change in fair value of warrants	464	(925)
Non-cash interest expense	(56)	19
Other non-cash items	(394)	718
Changes in operating asset and liability accounts:		
Accounts receivable	(4,192)	319
Inventory	(459)	1,719
Prepaid expenses and other current assets	(332)	(273)
Accounts payable and accrued expenses	75	(404)
Deferred revenue	666	3,300
Net cash used in operating activities	(6,886)	(5,430)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(115)	(76)
Proceeds from the sale of property, plant and equipment	—	10
Change in other assets	(51)	(23)
Net cash used in investing activities	(166)	(89)
Cash flows from financing activities:		
Employee taxes paid related to net settlement of equity awards	(238)	(274)
Repayment of debt	—	(1,575)
Proceeds from public equity offering, net	—	16,954
Net cash provided by/(used in) financing activities	(238)	15,105
Effect of exchange rate changes on cash	(44)	412
Net increase/(decrease) in cash, cash equivalents and restricted cash	(7,334)	9,998
Cash, cash equivalents and restricted cash at beginning of period	34,249	27,744
Cash, cash equivalents and restricted cash at end of period	$26,915	$37,742
Supplemental schedule of cash flow information:		
Cash paid for income taxes, net of refunds	176	96
Issuance of common stock to settle liabilities	85	90
Cash paid for interest	—	42

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

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AMERICAN SUPERCONDUCTOR CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of the Business and Operations and Liquidity
Nature of the Business and Operations
American Superconductor Corporation (“AMSC” or the “Company”) was founded on April 9, 1987. The Company is a leading provider of megawatt-scale solutions that lower the cost of wind power and enhance the performance of the power grid. In the wind power market, the Company enables manufacturers to field wind turbines through its advanced engineering, support services and power electronics products. In the power grid market, the Company enables electric utilities and renewable energy project developers to connect, transmit and distribute power through its transmission planning services and power electronics and superconductor-based products. The Company’s wind and power grid products and services provide exceptional reliability, security, efficiency and affordability to its customers.
These unaudited condensed consolidated financial statements of the Company have been prepared on a going concern basis in accordance with United States generally accepted accounting principles (“GAAP”) and the Securities and Exchange Commission’s (“SEC”) instructions to Form 10-Q. The going concern basis of presentation assumes that the Company will continue operations and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those instructions. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. The unaudited condensed consolidated financial statements, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim periods ended June 30, 2018 and 2017 and the financial position at June 30, 2018; however, these results are not necessarily indicative of results which may be expected for the full year. The interim condensed consolidated financial statements, and notes thereto, should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2018, and notes thereto, included in the Company’s annual report on Form 10-K for the year ended March 31, 2018 filed with the Securities and Exchange Commission on June 6, 2018.
Liquidity
The Company has experienced recurring operating losses and as of June 30, 2018, the Company had an accumulated deficit of $993.0 million. In addition, the Company has experienced recurring negative operating cash flows. At June 30, 2018, the Company had cash and cash equivalents of $26.8 million, with no outstanding debt other than ordinary trade payables. Cash used in operations for the three months ended June 30, 2018 was $6.9 million.
From April 1, 2011 through the date of this filing, the Company has reduced its global workforce substantially. As of June 30, 2018, the Company had a global workforce of 231 persons. The Company plans to closely monitor its expenses and, if required, expects to further reduce operating costs and capital spending to enhance liquidity.
Over the last several years, the Company has entered into several debt and equity financing arrangements in order to raise capital. Since April 1, 2012, the Company has generated aggregate cash flows from financing activities of $85.0 million. Included in this amount are proceeds of approximately $17.0 million after deducting underwriting discounts and commissions and offering expenses payable by the Company, from the Company's equity offering completed on May 10, 2017, which includes the subsequent exercise by the underwriters of their option in full to purchase additional shares. The Company terminated its At Market Issuance Sales Agreement ("ATM") with FBR Capital Markets & Co. in conjunction with this equity offering. See Note 14 “Stockholders' Equity” for further discussion of these financing arrangements.
On July 3, 2018, the Company and its wholly-owned subsidiaries Suzhou AMSC Superconductor Co. Ltd. (“AMSC China”) and AMSC Austria GMBH (“AMSC Austria”) entered into a settlement agreement (the “Settlement Agreement”) with Sinovel Wind Group Co., Ltd. (“Sinovel”). The Settlement Agreement settles the litigation and arbitration proceedings between the Company and Sinovel, as further described in Note 15 “Commitments and Contingencies". Under the terms of the Settlement Agreement, Sinovel has agreed to pay AMSC China an aggregate cash amount in Renminbi (RMB) equivalent to $57.5 million, consisting of two installments. Sinovel paid the first installment of $32.5 million on July 4, 2018, and has agreed to pay the second installment of $25.0 million (the “Second Payment”)

within ten (10) months after the U.S. District Court for the Western District of Wisconsin (the “District Court”) delivers the first sentence against Sinovel in the criminal case entitled United States v. Sinovel Wind Co., Ltd., Case Number 3:13-cr-00084-jdp. On July 6, 2018, the District Court delivered such sentence, and therefore the Second Payment is due by May 6, 2019 (the “Second Payment Due Date”). On July 24, 2018, AMSC China paid $30.7 million to AMSC Austria to settle outstanding inter-company balances.

On February 5, 2018, the Company entered into a Purchase and Sale Agreement (the “PSA”) with 64 Jackson, LLC (the “Purchaser”) and Stewart Title Guaranty Company (“Escrow Agent”), to effectuate the sale of certain real property located at 64 Jackson Road, Devens, Massachusetts, including the building that had served as the Company’s headquarters (collectively, the “Property”), in exchange for total consideration of $23.0 million, composed of (i) cash consideration of $17.0 million, and (ii) a $6.0 million subordinated secured commercial promissory note payable to the Company (the "Seller Note"). Subsequently, the Seller, the Purchaser and Jackson 64 MGI, LLC (“Assignee”) entered into an Assignment of Purchase and Sale Agreement (the “Assignment Agreement”), pursuant to which the Purchaser assigned all of its rights and interests in the PSA to the Assignee and the Assignee agreed to assume all of the Purchaser’s obligations and liabilities under the PSA. The transaction closed on March 28, 2018, at which time the Company received, from the Assignee, cash consideration, net of certain agreed upon closing costs, of $16.9 million, and the Seller Note at an interest rate of 1.96%. The Seller Note is secured by a subordinated second mortgage on the Property and a subordinated second assignment of leases and rents.

In December 2015, the Company entered into a set of strategic agreements valued at approximately $210.0 million with Inox Wind Ltd. (“Inox” or "Inox Wind"), 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. After Inox purchases the specified number of electrical control systems required under the terms of the supply contract, 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.

The Company believes that based on the information presented above and its quarterly management assessment, it has sufficient liquidity to fund its operations and capital expenditures for the next twelve months following the issuance of the financial statements for the three months ended June 30, 2018. The Company’s liquidity is highly dependent on its ability to increase revenues, including its ability to collect revenues under our agreements with Inox, its ability to control its operating costs, and its ability to raise additional capital, if necessary. There can be no assurance that the Company will be able to continue to raise additional capital, on favorable terms or at all, from other sources or execute on any other means of improving liquidity described above.

2. Revenue Recognition

On April 1, 2018, the Company adopted ASC 606, Revenue from Contracts with Customers, and all the related amendments and applied it to all contracts that were not completed as of April 1, 2018 using the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment of less than $0.1 million to the opening balance of accumulated deficit. Prior period amounts have not been restated and continue to be reported under the accounting standards in effect for those periods.

The adoption of this guidance will lead to recognizing certain revenue transactions sooner than in the past on certain contracts, as the Company will need to estimate the revenue it will be entitled to upon contract completion, and later on other contracts, such as Consulting and Statement of Work transactions, due to the lack of an enforceable right to payment for performance obligations satisfied over time, specifically in the technology product line. The Company does not expect a material impact to its consolidated statements of operations on an ongoing basis from the adoption of the new standard.

In addition, the FASB issued ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Non-financial Assets (Subtopic 610-20), in February 2017, to amend ASC 610-20, Other Income - Gains and Losses from the Derecognition of Non-financial Assets, (issued at the same time as ASC 606), which provides a model for the measurement and recognition of gains and losses on the sale of nonfinancial assets, such as property and equipment, including real estate. As a result of adopting ASU 2017-05 on April 1, 2018, the Company recognized an adjustment to the opening balance of accumulated deficit for the deferred gain from the March 28, 2018, sale of the Company's former headquarters in Devens, Massachusetts in the amount of $0.1 million.

The cumulative effect to the Company’s consolidated April 1, 2018 balance sheet from the adoption of the new revenue standard and the sale of nonfinancial assets was as follows (in thousands):

	March 31, 2018	Opening Adjustment	April 1, 2018
Assets:			
Inventory	$19,780	$ (1,599)	$18,181
Prepaid expenses and other current assets	2,947	1,599	4,546
Notes receivable, long term portion	2,559	105	2,664
Liabilities and Stockholders' Equity:			
Accounts payable and accrued expenses	$(12,625)	$ (2,729)	$(15,354)
Deferred revenue	(13,483)	2,657	(10,826)
Accumulated deficit	$(988,333)	$ (33)	$(988,366)

Included in the opening adjustment are reclassifications for deferred program costs and deferred revenue for previous balances related to agreements that no longer meet the definition of a customer contract under ASC 606. The impact of adoption on the Company’s opening balances and for the three months ended June 30, 2018, in all financial statement line items impacted by ASC 606 was immaterial from the amount that would have been reported under the previous guidance.

The Company’s revenues in its Grid segment are derived primarily through transmitting and distributing power, providing planning services that allow it to identify power grid needs and risks, and developing ship protection systems for the US Navy. The Company’s revenues in its Wind segment are derived primarily through supplying advanced power electronics and control systems, licensing our highly engineered wind turbine designs, and providing extensive customer support services to wind turbine manufacturers. The Company records revenue based on a five-step model in accordance with ASC 606. For its customer contracts, the Company identifies the performance obligations, determines the transaction price, allocates the contract transaction price to the performance obligations, and recognizes the revenue when (or as) control of goods or services is transferred to the customer. As of June 30, 2018, 82% of revenue was recognized at the point in time when control transferred to the customer, with the remainder being recognized over time.

In the Company's equipment and system product line each contract with a customer summarizes each product sold to a customer, which typically represent distinct performance obligations. A contracts' transaction price is allocated to each distinct performance obligation using the respective standalone selling price which is determined primarily using the cost plus expected margin approach and recognized as revenue when, or as, the performance obligation is satisfied. The majority of the Company’s product sales transfer control to the customer in line with the contracted delivery terms and revenue is recorded at the point in time when products are transferred to the freight forwarder, as the Company has determined that this is the point in time that control transfers to the customer.

In the Company's service and technology development product line, there are multiple different types of transactions but each of them begins with a contract with a customer that summarizes each product sold to a customer, which typically represents distinct performance obligations. The technology development transactions are primarily for activities that have no alternative use and for which a profit can be expected throughout the life of the contract. In these cases, the revenue is recognized over time, but in the instances where the profit cannot be assured throughout the entire contract then the revenue is recognized at a point in time. Each contract's transaction price is allocated to each distinct performance obligation using the respective standalone selling price which is determined primarily using the cost plus expected margin approach. The ongoing service transactions are for service contracts that provide benefit to the customer simultaneously as the Company performs its obligations, and therefore this revenue is recognized ratably over time throughout the effective period of these contracts. The transaction prices on these contracts are allocated based on an adjusted market approach which is re-assessed annually for reasonableness. The field service transactions include contracts for delivery of goods and completion of services made at the customer's requests, which are not deemed satisfied until the work has been completed and/or the requested goods have been delivered, so all of this revenue is recognized at the point in time when the control changes, and at allocated prices based on the adjusted market approach driven by standard price lists. The royalty transactions are related to certain contract terms on transactions in the Company's equipment and systems product line based on activity as specified in the contracts. The transaction prices of these agreements are calculated based on an adjusted market approach as specified in the contract. The Company reports royalty revenue for usage-based royalties when the sales have occurred. In circumstances when collectability is not assured and a contract does not exist under ASC 606, revenue is deferred until a non-refundable payment has been received for substantially all the amount that is due and there are no further remaining performance obligations.

The Company's service contracts can include a purchase order from a customer for specific goods in which each item is a distinct performance obligation satisfied at a point in time at which control of the goods is transferred to the customer which occurs based on the contracted delivery terms or when the requested service work has been completed. The transaction price for these goods is allocated based on the adjusted market approach considering similar transactions under similar circumstances. Service contracts are also derived from ongoing maintenance contracts and extended service-type warranty contracts. In these transactions, the Company is contracted to provide an ongoing service over a specified period of time. As the customer is consuming the benefits as the service is being provided the revenue is recognized over time ratably.

The Company’s policy is to not accept volume discounts, product returns, or rebates and allowances within its contracts. In the event a contract was approved with any of these terms, it would be evaluated for variable consideration, estimated and recorded as a reduction of revenue in the same period the related product revenue was recorded.

The Company provides assurance-type warranties on all product sales for a term of typically one to two