

AMERICAN SUPERCONDUCTOR CORP /DE/  
Form 10-Q  
November 12, 2013

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: September 30, 2013

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 0-19672

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

04-2959321  
(I.R.S.  
Employer  
Identification  
No.)

64 Jackson Road, Devens, Massachusetts

01434

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(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 ☒ No ☐

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

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

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

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

Shares outstanding of the Registrant's common stock:

|                                          |                                    |
|------------------------------------------|------------------------------------|
| Common Stock, par value \$0.01 per share | 64,886,548                         |
| Class                                    | Outstanding as of November 7, 2013 |



AMERICAN SUPERCONDUCTOR CORPORATION

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## AMERICAN SUPERCONDUCTOR CORPORATION

## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

|                                                                                                                         | September 30,<br>2013 | March 31,<br>2013 |
|-------------------------------------------------------------------------------------------------------------------------|-----------------------|-------------------|
| <b>ASSETS</b>                                                                                                           |                       |                   |
| Current assets:                                                                                                         |                       |                   |
| Cash and cash equivalents                                                                                               | \$ 25,867             | \$ 39,243         |
| Accounts receivable, net                                                                                                | 9,289                 | 18,864            |
| Inventory                                                                                                               | 24,474                | 33,473            |
| Prepaid expenses and other current assets                                                                               | 19,337                | 22,469            |
| Restricted cash                                                                                                         | 2,021                 | 6,136             |
| Total current assets                                                                                                    | 80,988                | 120,185           |
| Property, plant and equipment, net                                                                                      | 69,584                | 74,626            |
| Intangibles, net                                                                                                        | 2,348                 | 2,749             |
| Restricted cash                                                                                                         | 4,901                 | 4,820             |
| Deferred tax assets                                                                                                     | 5,421                 | 5,354             |
| Other assets                                                                                                            | 9,283                 | 9,020             |
| Total assets                                                                                                            | \$ 172,525            | \$ 216,754        |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                                                              |                       |                   |
| Current liabilities:                                                                                                    |                       |                   |
| Accounts payable and accrued expenses                                                                                   | \$ 22,724             | \$ 30,138         |
| Note payable, current portion, net of discount of \$260 as of September 30, 2013 and \$458 as of March 31, 2013         | 4,355                 | 4,158             |
| Convertible note, current portion, net of discount of \$2,230 as of September 30, 2013 and \$4,289 as of March 31, 2013 | 7,255                 | 4,610             |
| Derivative liability                                                                                                    | 2,807                 | 4,162             |
| Adverse purchase commitments                                                                                            | 962                   | 1,440             |
| Deferred revenue, current portion                                                                                       | 11,490                | 29,805            |
| Deferred tax liabilities                                                                                                | 5,452                 | 5,444             |
| Total current liabilities                                                                                               | 55,045                | 79,757            |
| Note payable, net of discount of \$16 as of September 30, 2013 and \$95 as of March 31, 2013                            | 1,138                 | 3,367             |
| Convertible note, net of discount of \$0 as of September 30, 2013 and \$600 as of March 31, 2013                        | 926                   | 5,881             |
| Deferred revenue                                                                                                        | 1,374                 | 1,340             |
| Other liabilities                                                                                                       | 1,184                 | 1,291             |
| Total liabilities                                                                                                       | 59,667                | 91,636            |
| Commitments and contingencies (Note 12)                                                                                 |                       |                   |
| Stockholders equity:                                                                                                    |                       |                   |

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|                                            |            |            |
|--------------------------------------------|------------|------------|
| Common stock                               | 640        | 603        |
| Additional paid-in capital                 | 936,086    | 923,847    |
| Treasury stock                             | (370)      | (313)      |
| Accumulated other comprehensive income     | 1,768      | 1,112      |
| Accumulated deficit                        | (825,266)  | (800,131)  |
| Total stockholders' equity                 | 112,858    | 125,118    |
| Total liabilities and stockholders' equity | \$ 172,525 | \$ 216,754 |

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<br>September 30, |             | Six months ended<br>September 30, |             |
|------------------------------------------------------|-------------------------------------|-------------|-----------------------------------|-------------|
|                                                      | 2013                                | 2012        | 2013                              | 2012        |
| Revenues                                             | \$ 24,181                           | \$ 20,867   | \$ 47,267                         | \$ 49,583   |
| Cost and operating expenses:                         |                                     |             |                                   |             |
| Cost of revenues                                     | 22,611                              | 20,384      | 40,598                            | 37,310      |
| Research and development                             | 3,083                               | 3,621       | 6,110                             | 7,532       |
| Selling, general and administrative                  | 8,682                               | 11,736      | 19,508                            | 25,535      |
| Restructuring and impairments                        | 751                                 | 16          | 764                               | 143         |
| Amortization of acquisition related intangibles      | 82                                  | 80          | 164                               | 161         |
| Total cost and operating expenses                    | 35,209                              | 35,837      | 67,144                            | 70,681      |
| Operating loss                                       | (11,028)                            | (14,970)    | (19,877)                          | (21,098)    |
| Change in fair value of derivatives and warrants     | 886                                 | 3,285       | 1,355                             | 897         |
| Interest expense, net                                | (3,505)                             | (2,919)     | (5,617)                           | (5,637)     |
| Other expense, net                                   | (635)                               | (1,266)     | (566)                             | (1,143)     |
| Loss before income tax (benefit) expense             | (14,282)                            | (15,870)    | (24,705)                          | (26,981)    |
| Income tax (benefit) expense                         | 341                                 | 79          | 430                               | (757)       |
| Net loss                                             | \$ (14,623)                         | \$ (15,949) | \$ (25,135)                       | \$ (26,224) |
| Net loss per common share                            |                                     |             |                                   |             |
| Basic                                                | \$ (0.24)                           | \$ (0.31)   | \$ (0.42)                         | \$ (0.51)   |
| Diluted                                              | \$ (0.24)                           | \$ (0.31)   | \$ (0.42)                         | \$ (0.51)   |
| Weighted average number of common shares outstanding |                                     |             |                                   |             |
| Basic                                                | 61,116                              | 51,907      | 59,712                            | 51,551      |
| Diluted                                              | 61,116                              | 51,907      | 59,712                            | 51,551      |

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

AMERICAN SUPERCONDUCTOR CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(In thousands)

|                                                     | Three months ended<br>September 30, |             | Six months ended<br>September 30, |             |
|-----------------------------------------------------|-------------------------------------|-------------|-----------------------------------|-------------|
|                                                     | 2013                                | 2012        | 2013                              | 2012        |
| Net loss                                            | \$ (14,623)                         | \$ (15,949) | \$ (25,135)                       | \$ (26,224) |
| Other comprehensive (loss) income, net of tax:      |                                     |             |                                   |             |
| Foreign currency translation (losses) gains         | 691                                 | 439         | 656                               | (729)       |
| Unrealized losses on investments                    |                                     | (5)         |                                   | (1)         |
| Total other comprehensive (loss) income, net of tax | 691                                 | 434         | 656                               | (730)       |
| Comprehensive loss                                  | \$ (13,932)                         | \$ (15,515) | \$ (24,479)                       | \$ (26,954) |

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)

|                                                                   | Six months ended<br>September 30, |             |
|-------------------------------------------------------------------|-----------------------------------|-------------|
|                                                                   | 2013                              | 2012        |
| Cash flows from operating activities:                             |                                   |             |
| Net loss                                                          | \$ (25,135)                       | \$ (26,224) |
| Adjustments to reconcile net loss to net cash used in operations: |                                   |             |
| Depreciation and amortization                                     | 5,343                             | 6,628       |
| Stock-based compensation expense                                  | 4,287                             | 4,039       |
| Restructuring charges, net of payments                            | 161                               | (49)        |
| Provision for excess and obsolete inventory                       | 192                               | 421         |
| Adverse purchase commitment recoveries, net                       |                                   | (8,309)     |
| Loss on minority interest investments                             | 499                               | 1,490       |
| Change in fair value of derivatives and warrants                  | (1,355)                           | (897)       |
| Non-cash interest expense                                         | 4,765                             | 4,443       |
| Other non-cash items                                              | 892                               | 350         |
| Changes in operating asset and liability accounts:                |                                   |             |
| Accounts receivable                                               | 10,704                            | 2,856       |
| Inventory                                                         | 9,315                             | (971)       |
| Prepaid expenses and other current assets                         | 3,531                             | 8,394       |
| Accounts payable and accrued expenses                             | (9,105)                           | (14,900)    |
| Deferred revenue                                                  | (18,873)                          | (2,236)     |
| Net cash used in operating activities                             | (14,779)                          | (24,965)    |
| Cash flows from investing activities:                             |                                   |             |
| Purchase of property, plant and equipment                         | (115)                             | (903)       |
| Proceeds from the maturity of marketable securities               |                                   | 84          |
| Change in restricted cash                                         | 4,053                             | (4,116)     |
| Change in other assets                                            | (495)                             |             |
| Net cash provided by (used in) investing activities               | 3,443                             | (4,935)     |
| Cash flows from financing activities:                             |                                   |             |
| Employee taxes paid related to net settlement of equity awards    | (57)                              | (36)        |
| Proceeds from the issuance of debt, net of expenses               |                                   | 32,895      |
| Repayment of debt                                                 | (2,308)                           |             |
| Proceeds from exercise of employee stock options and ESPP         | 99                                | 178         |
| Net cash (used in) provided by financing activities               | (2,266)                           | 33,037      |
| Effect of exchange rate changes on cash and cash equivalents      | 226                               | (280)       |
| Net (decrease) increase in cash and cash equivalents              | (13,376)                          | 2,857       |
| Cash and cash equivalents at beginning of year                    | 39,243                            | 46,279      |
| Cash and cash equivalents at end of period                        | \$ 25,867                         | \$ 49,136   |
| Supplemental schedule of cash flow information:                   |                                   |             |
| Cash paid for income taxes, net of refunds                        | \$                                | \$ (752)    |
| Issuance of common stock to settle liabilities                    | 7,831                             | 2,676       |

|                        |     |     |
|------------------------|-----|-----|
| Cash paid for interest | 400 | 269 |
|------------------------|-----|-----|

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

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of the Business and Operations and Liquidity

Nature of the Business and Operations

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

These unaudited condensed consolidated financial statements of the Company have been prepared on a going concern basis in accordance with United States generally accepted accounting principles ( "GAAP" ) and the Securities and Exchange Commission's ( "SEC" ) instructions to Form 10-Q. The going concern basis of presentation assumes that the Company will continue operations and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those instructions. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. The unaudited condensed consolidated financial statements, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim periods ended September 30, 2013 and 2012 and the financial position at September 30, 2013. Certain reclassifications of prior years' amounts have been made to conform to the current year presentation. These reclassifications, reflected on the consolidated statements of cash flows, are immaterial and had no impact on net income or stockholders' equity.

Liquidity

The Company has experienced recurring operating losses and as of September 30, 2013, the Company had an accumulated deficit of \$825.3 million. In addition, the Company has experienced recurring negative operating cash flows, which has resulted in a decrease in its cash balance. These factors raise substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of this uncertainty. At September 30, 2013, the Company had cash and cash equivalents of \$25.9 million. Cash used in operations for the six months ended September 30, 2013 was \$14.8 million.

The Company is currently in the process of consolidating certain business operations to reduce facility costs. The Company expects that its cost reduction efforts and anticipated revenue growth will result in a reduction of cash used for operations during the fiscal year ending March 31, 2014, compared to the prior year. In July 2013, the Company reduced its workforce by approximately 7% and recorded a restructuring charge for severance and other costs of approximately \$0.8 million in the quarter ended September 30, 2013. The Company plans to closely monitor its expenses and, if required, expects to further reduce operating costs and capital spending to enhance liquidity.

On April 4, 2012, the Company completed a private placement of \$25.0 million aggregate principal amount of a 7% senior unsecured convertible note (the "Initial Note" ). On December 20, 2012, the Company agreed to exchange the Initial Note for a new unsecured, senior convertible note (the "Exchanged Note" ), which had the same principal amount

and accrued interest as the Initial Note at the time of the exchange. (See Note 10, Debt, for further information regarding these debt arrangements, including the covenants, restrictions and events of default under the agreements.)

On June 5, 2012, the Company entered into a Loan and Security Agreement (the "Term Loan"), under which the Company borrowed \$10.0 million. The Term Loan contains certain covenants and restrictions including, among others, a requirement to maintain a minimum unrestricted cash balance in the U.S. equal to the remaining principal balance. (See Note 10, "Debt", for further information regarding these debt arrangements, including the covenants, restrictions and events of default under the agreements.) The Company believes that it is in compliance with the covenants and restrictions included in the agreements governing these debt arrangements as of the date of this Quarterly Report on Form 10-Q.

In order for the Company to continue operations beyond the next twelve months and be able to discharge its liabilities and commitments in the normal course of business, the Company needs to increase sales through executing its strategy to broaden its customer base, enter new markets, and commercialize its superconductor product line. In addition, the Company may need to further reduce operating expenses in line with business conditions in order to decrease the amount of cash used in operations. The Company also intends to seek new financing arrangements, including, but not limited to, new debt and/or equity financing, and continue to work with the holder of its convertible note in order to maintain the ability to make monthly amortization payments on the convertible note in shares of common stock. In addition, the Company is actively seeking to sell its minority investments in Tres Amigas and Blade Dynamics and has recently engaged a financial advisor to assist with that effort. (See Note 13, "Minority Investments", for further information about such investments.) There can be no assurance that the Company will be able to raise additional capital or sell one or both of these investments on commercially reasonable terms or at all.

The Company must successfully execute on its plans to improve operating performance discussed above and raise additional capital through financings or other means to ensure it has sufficient cash to fund its operations, capital expenditures and scheduled cash payments under its debt obligations through September 30, 2014. The Company's ability to pay required monthly installment payments under the Exchanged Note in equity instead of cash is based on certain stock price and trading volume conditions that are outside of the Company's control. If one or both of these equity conditions are not met (absent a waiver from the lender), the Company may be required to make required monthly installment payments in cash. As of the filing date of this Form 10-Q, the Company has only made payments to the lender in shares of common stock and as a result, the principal balance has been reduced by \$14.6 million through September 30, 2013. If the Company fails one or both of the equity conditions, the Company can still make required payments in its common stock with a waiver from the lender, which has been provided in the past. There is no assurance that the lender will provide any waivers in the future. The Company's liquidity is highly dependent on its ability to profitably grow revenues through both the acquisition of new customers and growth from its existing customers, manage its operating expenses, continue to make amortization payments under the Exchanged Note in shares of the Company's common stock, maintain compliance with the covenants and restrictions on its debt obligations (or obtain waivers from our lenders in the event of non-compliance), and raise additional capital through new financing arrangements or the sale of its minority investments in Tres Amigas and Blade Dynamics. (See Note 13, "Minority Investments", for further information about such investments). There can be no assurance that the Company will be able to raise additional capital or be able to sell one or both of these investments on commercially reasonable terms or at all.

The results of operations for an interim period are not necessarily indicative of the results of operations to be expected for the fiscal year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the fiscal year ended March 31, 2013 (fiscal 2012) which are contained in the Company's Annual Report on Form 10-K.



## 2. Stock-Based Compensation

The Company accounts for its stock-based compensation at fair value. The following table summarizes stock-based compensation expense by financial statement line item for the three and six months ended September 30, 2013 and 2012 (in thousands):

|                                     | Three months ended<br>September 30, |          | Six months ended<br>September 30, |          |
|-------------------------------------|-------------------------------------|----------|-----------------------------------|----------|
|                                     | 2013                                | 2012     | 2013                              | 2012     |
| Cost of revenues                    | \$ 224                              | \$ 213   | \$ 429                            | \$ 383   |
| Research and development            | 585                                 | 591      | 1,159                             | 1,154    |
| Selling, general and administrative | 1,343                               | 1,240    | 2,699                             | 2,502    |
| Total                               | \$ 2,152                            | \$ 2,044 | \$ 4,287                          | \$ 4,039 |

During the six months ended September 30, 2013, the Company granted approximately 831,000 stock options, 400,000 restricted stock awards, 362,000 shares of performance-based restricted stock awards and issued 212,000 shares of common stock in-lieu of cash bonuses and severance payments to employees under the 2007 Stock Incentive Plan. The shares issued in-lieu of cash bonuses vest immediately. The shares issued in lieu of severance vested on the eighth day after receipt of an irrevocable release. The options and restricted stock awards granted vest upon the passage of time, generally 3 years. For options and awards that vest upon the passage of time, expense is being recorded over the vesting period. Performance-based restricted stock awards are expensed over the requisite service period.

The estimated fair value of the Company's stock-based awards, less expected annual forfeitures, is amortized over the awards' service period. The total unrecognized compensation cost for unvested outstanding stock options was \$3.2 million at September 30, 2013. This expense will be recognized over a weighted average expense period of approximately 2.0 years. The total unrecognized compensation cost for unvested outstanding restricted stock was \$4.6 million at September 30, 2013. This expense will be recognized over a weighted-average expense period of approximately 1.3 years.

The weighted-average assumptions used in the Black-Scholes valuation model for stock options granted during the three and six months ended September 30, 2013 and 2012 are as follows:

|                         | Three months ended<br>September 30, |       | Six months ended<br>September 30, |       |
|-------------------------|-------------------------------------|-------|-----------------------------------|-------|
|                         | 2013                                | 2012  | 2013                              | 2012  |
| Expected volatility     | 75.4%                               | 71.9% | 75.1%                             | 71.9% |
| Risk-free interest rate | 1.7%                                | 0.8%  | 1.7%                              | 0.9%  |
| Expected life (years)   | 5.8                                 | 5.9   | 5.9                               | 5.9   |
| Dividend yield          | None                                | None  | None                              | None  |

The expected volatility rate was estimated based on an equal weighting of the historical volatility of the Company's common stock and the implied volatility of the Company's traded options. The expected term was estimated based on an analysis of the Company's historical experience of exercise, cancellation, and expiration patterns. The risk-free interest rate is based on the average of the five and seven year United States Treasury rates.



## 3. Computation of Net Loss per Common Share

Basic net loss per share ( EPS ) is computed by dividing net loss by the weighted-average number of common shares outstanding for the period. Where applicable, diluted EPS is computed by dividing the net loss by the weighted-average number of common shares and dilutive common equivalent shares outstanding during the period, calculated using the treasury stock method. Common equivalent shares include the effect of restricted stock, exercise of stock options and warrants and contingently issuable shares. For each of the three and six months ended September 30, 2013, 9.7 million shares were not included in the calculation of diluted EPS as they were considered anti-dilutive, of which 3.2 million relate to unvested stock options, 3.2 million relate to the issuance of warrants, and 3.3 million shares relate to the convertible feature of the Company's Exchanged Note. For the three and six months ended September 30, 2012, 8.8 million shares were not included in the calculation of diluted EPS as they were considered anti-dilutive, of which 3.0 million relate to unvested stock options, 3.2 million relate to the issue of warrants and 2.6 million shares related to the convertible feature of the Company's Exchanged Note.

The following table reconciles the numerators and denominators of the earnings per share calculation for the three and six months ended September 30, 2013 and 2012 (in thousands, except per share data):

|                                                     | Three months ended<br>September 30, |             | Six months ended<br>September 30, |           |
|-----------------------------------------------------|-------------------------------------|-------------|-----------------------------------|-----------|
|                                                     | 2013                                | 2012        | 2013                              | 2012      |
| <b>Numerator:</b>                                   |                                     |             |                                   |           |
| Net loss                                            | \$ (14,623)                         | \$ (15,949) | (25,135)                          | (26,224)  |
| <b>Denominator:</b>                                 |                                     |             |                                   |           |
| Weighted-average shares of common stock outstanding | 62,787                              | 52,606      | 61,583                            | 52,202    |
| Weighted-average shares subject to repurchase       | (1,671)                             | (699)       | (1,871)                           | (651)     |
| Shares used in per-share calculation basic          | 61,116                              | 51,907      | 59,712                            | 51,551    |
| Shares used in per-share calculation diluted        | 61,116                              | 51,907      | 59,712                            | 51,551    |
| Net loss per share basic                            | \$ (0.24)                           | \$ (0.31)   | \$ (0.42)                         | \$ (0.51) |
| Net loss per share diluted                          | \$ (0.24)                           | \$ (0.31)   | \$ (0.42)                         | \$ (0.51) |

## 4. Fair Value Measurements

In January 2010, the Financial Accounting Standards Board ( FASB ) issued guidance related to disclosures of fair value measurements. The guidance requires gross presentation of activity within the Level 3 measurement roll-forward and details of transfers in and out of Level 1 and 2 measurements. It also clarifies two existing disclosure requirements on the level of disaggregation of fair value measurements and disclosures on inputs and valuation techniques. A change in the hierarchy of an investment from its current level will be reflected in the period during which the pricing methodology of such investment changes. Disclosure of the transfer of securities from Level 1 to Level 2 or Level 3 will be made in the event that the related security is significant to total cash and investments. The Company did not have any transfers of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value measurement hierarchy during the three months ended September 30, 2013.

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

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

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

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

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

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The following table provides the assets carried at fair value, measured as of September 30, 2013 and March 31, 2013 (in thousands):

|                      | Total<br>Carrying<br>Value | Quoted Prices in<br>Active Markets<br>(Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2)    | Significant<br>Unobservable Inputs<br>(Level 3)       |
|----------------------|----------------------------|-------------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------|
| September 30, 2013:  |                            |                                                 |                                                           |                                                       |
| Assets:              |                            |                                                 |                                                           |                                                       |
| Cash equivalents     | \$ 15,666                  | \$ 15,666                                       | \$                                                        | \$                                                    |
| Liabilities:         |                            |                                                 |                                                           |                                                       |
| Derivative liability | \$ 181                     | \$                                              | \$                                                        | \$ 181                                                |
| Warrants             | \$ 2,626                   | \$                                              | \$                                                        | \$ 2,626                                              |
|                      |                            |                                                 |                                                           |                                                       |
|                      | Total<br>Carrying<br>Value | Quoted Prices in<br>Active Markets<br>(Level 1) | Using Significant Other<br>Observable Inputs<br>(Level 2) | Using Significant<br>Unobservable Inputs<br>(Level 3) |
| March 31, 2013:      |                            |                                                 |                                                           |                                                       |
| Assets:              |                            |                                                 |                                                           |                                                       |
| Cash equivalents     | \$ 18,649                  | \$ 18,649                                       | \$                                                        | \$                                                    |
| Liabilities:         |                            |                                                 |                                                           |                                                       |
| Derivative liability | \$ 529                     | \$                                              | \$                                                        | \$ 529                                                |
| Warrants             | \$ 3,633                   | \$                                              | \$                                                        | \$ 3,633                                              |

The table below reflects the activity for the Company's major classes of liabilities measured at fair value (in thousands).

|                               | Derivative Liability | Warrants |
|-------------------------------|----------------------|----------|
| April 1, 2013                 | \$ 529               | \$ 3,633 |
| Mark to market adjustment     | (348)                | (1,007)  |
| Balance at September 30, 2013 | \$ 181               | \$ 2,626 |

|                                                | Derivative<br>Liability | Warrants |
|------------------------------------------------|-------------------------|----------|
| April 1, 2012                                  | \$                      | \$       |
| Valuation of derivative liability              | 3,779                   |          |
| Warrant issuance with Senior Convertible Notes |                         | 7,018    |

|                                                                |         |          |
|----------------------------------------------------------------|---------|----------|
| Warrant issuance with Senior Secured Term Loan                 |         | 380      |
| Mark to market adjustment                                      | (1,016) | 119      |
| Balance at September 30, 2012                                  | 2,763   | 7,517    |
| Valuation of derivative liability attributable to modification | 542     |          |
| Mark to market adjustment                                      | (2,776) | (3,884)  |
| Balance at March 31, 2013                                      | \$ 529  | \$ 3,633 |

#### Valuation Techniques

#### Cash Equivalents

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

## Derivative Liability

The Company has identified all of the derivatives ( Derivative Liability ) associated with the Exchanged Note which include put rights to require the investor to acquire an additional \$15.0 million convertible note and additional warrants, holder change of control redemption rights, issuer optional redemption rights, sale redemption rights and a right to make payment in the form of stock rather than cash if certain equity conditions are met. The Derivative Liability is 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 income (expense) until the earlier of its exercise or expiration. The Company relies on assumptions in a lattice model to determine the fair value of Derivative Liability. The Company has appropriately valued the Derivative Liability within Level 3 of the valuation hierarchy. (See Note 10, Debt , for discussion on the Exchanged Note, Derivative Liability and valuation assumptions used.)

## Warrants

Warrants were issued in conjunction with the Initial Note and the Term Loan. (See Note 10, Debt , for additional information on warrants.) These warrants are subject to revaluation at each balance sheet date, and any change in fair value will be recorded as a change in fair value in other income (expense) until the earlier of their exercise or expiration.

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

## 5. Accounts Receivable

Accounts receivable at September 30, 2013 and March 31, 2013 consisted of the following (in thousands):

|                                       | September 30,<br>2013 | March 31,<br>2013 |
|---------------------------------------|-----------------------|-------------------|
| Accounts receivable (billed)          | \$ 8,592              | \$ 17,222         |
| Accounts receivable (unbilled)        | 713                   | 1,642             |
| Less: Allowance for doubtful accounts | (16)                  |                   |
| Accounts receivable, net              | \$ 9,289              | \$ 18,864         |

## 6. Inventory

The components of inventory at September 30, 2013 and March 31, 2013 are as follows (in thousands):

| September 30,<br>2013 | March 31,<br>2013 |
|-----------------------|-------------------|
|-----------------------|-------------------|

|                        |    |        |    |        |
|------------------------|----|--------|----|--------|
| Raw materials          | \$ | 7,183  | \$ | 5,966  |
| Work-in-process        |    | 3,530  |    | 3,427  |
| Finished goods         |    | 10,689 |    | 21,655 |
| Deferred program costs |    | 3,072  |    | 2,425  |
| Net inventory          | \$ | 24,474 | \$ | 33,473 |

The Company recorded inventory write-downs of less than \$0.1 million and \$0.2 million for the three months ended September 30, 2013 and 2012, respectively. The Company recorded inventory write-downs of \$0.2 million and \$0.4 million for the six months ended September 30, 2013 and 2012, respectively. These write downs were based on evaluating its ending inventory on hand for excess quantities and obsolescence.

Deferred program costs as of September 30, 2013 and March 31, 2013 primarily represent costs incurred on programs accounted for under contract accounting where the Company needs to complete development programs before revenue and costs will be recognized, respectively.

## 7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following (in thousands):

|                                     | September 30,<br>2013 | March 31,<br>2013 |
|-------------------------------------|-----------------------|-------------------|
| Accounts payable                    | \$ 3,105              | \$ 7,146          |
| Accrued miscellaneous expenses      | 7,195                 | 9,172             |
| Accrued inventories in transit      | 1,442                 | 779               |
| Accrued outside services            | 2,763                 | 2,251             |
| Accrued subcontractor program costs | 556                   | 2,442             |
| Accrued compensation                | 4,447                 | 5,506             |
| Income taxes payable                | 147                   | 133               |
| Accrued warranty                    | 3,069                 | 2,709             |
| Total                               | \$ 22,724             | \$ 30,138         |

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

Product warranty activity was as follows (in thousands):

|                                                     | Three months ended<br>September 30, |          | Six months ended<br>September 30, |          |
|-----------------------------------------------------|-------------------------------------|----------|-----------------------------------|----------|
|                                                     | 2013                                | 2012     | 2013                              | 2012     |
| Balance at beginning of period                      | \$ 2,787                            | \$ 5,500 | \$ 2,709                          | \$ 5,896 |
| Change in accruals for warranties during the period | 342                                 | (384)    | 493                               | (551)    |
| Settlements during the period                       | (60)                                | (324)    | (133)                             | (553)    |
| Balance at end of period                            | \$ 3,069                            | \$ 4,792 | \$ 3,069                          | \$ 4,792 |

## 8. Income Taxes

For the three and six months ended September 30, 2013, the Company recorded income tax expense of \$0.3 million and \$0.4 million, respectively. For the three and six months ended September 30, 2012, the Company recorded income tax expense of \$0.1 million and an income tax benefit of \$0.8 million, respectively. The income tax expense for the three and six months ended September 30, 2013 was primarily due to withholding taxes for repatriation of funds from certain foreign jurisdictions, and for these periods, as well as the three months ended September 30, 2012, income taxes in the Company's foreign jurisdictions. The income tax benefit for the six months ended September 30, 2012, was primarily due to a refund of Chinese income taxes of \$0.9 million.

## 9. Restructuring

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

During the years ended March 31, 2013 and March 31, 2012, the Company undertook restructuring activities, approved by the Board of Directors, in order to reorganize its global operations, streamline various functions of the business, and reduce its global workforce to better reflect the demand for its products. The Company undertook an additional workforce reduction in July 2013, reducing its workforce by approximately 7%, impacting primarily selling, engineering and general and administrative functions. The Company recorded a restructuring charge for severance and other costs of approximately \$0.8 million during the three months ended September 30, 2013. From April 1, 2011 through September 30, 2013, these activities resulted in a substantial reduction of its global workforce. During the six months ended September 30, 2013 and 2012, the Company incurred restructuring costs of \$0.8 million and \$0.1 million, respectively. The remaining balance of accrued restructuring is expected to be paid through February 2014.

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

|                                                     | Severance pay<br>and benefits | Facility<br>exit costs | Total  |
|-----------------------------------------------------|-------------------------------|------------------------|--------|
| Six months ended September 30, 2013                 |                               |                        |        |
| Accrued restructuring balance at April 1, 2013      | \$ 145                        | 54                     | \$ 199 |
| Charges to operations                               | 751                           | 13                     | 764    |
| Cash payments                                       | (599)                         | (37)                   | (636)  |
| Other adjustments                                   | (166)                         | (30)                   | (196)  |
| Accrued restructuring balance at September 30, 2013 | \$ 131                        | \$                     | \$ 131 |
| Six months ended September 30, 2012                 |                               |                        |        |
| Accrued restructuring balance at April 1, 2012      | \$ 680                        | \$ 294                 | \$ 974 |
| Charges to operations                               | 182                           | (39)                   | 143    |
| Cash payments                                       | (560)                         | (255)                  | (815)  |
| Accrued restructuring balance at September 30, 2012 | \$ 302                        | \$                     | \$ 302 |

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

## 10. Debt

### Senior Convertible Note

On April 4, 2012, the Company entered into a Securities Purchase Agreement with Capital Ventures International ( CVI ), an affiliate of Heights Capital Management (the Purchase Agreement ) and completed a private placement of the Initial Note, a 7% unsecured senior convertible note. After fees and expenses, the net proceeds of the Initial Note were \$23.2 million. The Initial Note had an initial conversion price of \$4.85 per share, representing a premium of approximately 20% over AMSC's closing price on April 3, 2012. The Initial Note was payable in monthly installments beginning four months from issuance and ending on October 4, 2014. Monthly payments were payable in cash or the Company's common stock at the option of the Company, subject to certain trading volume, stock price and other conditions. CVI could have also elected to defer receipt of monthly installment payments at its option. Any deferred installment payments would have continued to accrue interest. The Company registered 10,262,311 shares of common stock which may be used as payment for principal and interest in lieu of cash for resale under the Securities Act as required under a Registration Rights Agreement with CVI.

The Company accounted for the Initial Note as an instrument that has the characteristics of a debt host contract containing several embedded derivative features that would require bifurcation and separate accounting as a derivative instrument pursuant to the provisions of ASC 815. The Company elected not to use the fair value option for the aggregate amount of the Exchanged Note and recorded the liability at its stated value on the date of issuance with no changes in fair value reported in subsequent periods.

The Company has identified the following derivatives associated with the Initial Note: holder change of control redemption rights; issuer optional redemption rights; sale redemption rights and a feature to convert the Initial Note into equity at the holder's option. The Company valued these derivatives at \$3.8 million upon issuance of the Initial Note. (See Note 11, Warrants and Derivative Liabilities, for additional information regarding derivative liabilities.)

In conjunction with the Initial Note, CVI received a warrant to purchase approximately 3.1 million additional shares of common stock exercisable at a strike price of \$5.45 per share, subject to adjustment, until October 4, 2017. Due to certain adjustment provisions within the warrant, it qualified for liability accounting and had a fair value of \$7.0 million upon issuance. The Company recorded the value as a debt discount and a warrant liability. (See Note 11, Warrants and Derivative Liabilities, for additional information regarding the warrant.)

The process of valuing financial and derivative instruments utilizes facts and circumstances as of the measurement date as well as certain inputs, assumptions, and judgments that may affect the estimated fair value of the instruments. Upon issuance of the Initial Note, the Company determined the initial carrying value of the Initial Note to be \$25.0 million. In addition, the Company also incurred \$1.8 million of legal and origination costs as of the year ended March 31, 2013, which have been recorded as a discount on the Initial Note.

On December 20, 2012, the Company entered into an Amendment and Exchange Agreement, (the First Amendment ) with CVI, which amended the Purchase Agreement. Pursuant to the First Amendment, the Company and CVI exchanged the Initial Note for the Exchanged Note. At the time of the exchange, the Exchanged Note had the same principal amount and accrued interest as the Initial Note. The Exchanged Note is convertible into the Company's common stock and has the same scheduled monthly installment payments as the Initial Note. The Exchanged Note provides the Company with additional flexibility to make monthly installment payments in shares of the Company's common stock. The Company retains the ability to repay the Exchanged Note in cash. Specifically, the amendments to the Exchanged Note:

- Allowed the Company to convert, subject to the satisfaction of certain conditions set forth in the Exchanged Note, (a) at least \$2.5 million of the approximately \$5.3 million installment amount payable with respect to the January 2013 installment date (including approximately \$4.2 million of deferred installment amounts from the period September 4, 2012 to December 3, 2012) into shares of the Company's common stock (on December 21, 2012 the Company converted \$3.8 million in deferred installment amount principal and interest and issued 1,715,443 shares of common stock), and (b) the balance of the January 2013 installment amount in equal amounts on each of the February and March 2013 installment dates;
  - Reduced the price failure equity condition with respect to a particular date of determination from \$2.50 to \$1.00;
  - Reduced the aggregate daily dollar trading volume equity condition required for at least 25 of the 30 consecutive trading days immediately preceding a date of determination from \$1,500,000 to \$850,000 per trading day. In addition, if the aggregate daily dollar trading volume is between \$50,000 and \$850,000, the Company may still convert into common stock a portion of an installment amount payable with respect to an installment date equal to the quotient of (x) the aggregate daily dollar trading volume, divided by (y) \$850,000;
  - Increased CVI's beneficial ownership limitation under the Exchanged Note from 4.99% to 9.99%; and
  - Reduced the conversion price, from \$4.85 per share of the Company's common stock to \$3.19 per share of the Company's common stock, subject to certain price-based and other anti-dilution adjustments.
- The Company assessed the changes in the Exchanged Note and accounted for it as a modification of the Initial Note. Therefore, the Company determined the incremental value of the derivative instruments, as a result of the Exchanged Note having a reduced conversion price. As a result of the re-valuation, the Company recorded a \$0.5 million increase in the value of the derivative liability and additional debt discount. At the modification date, the value of the

derivative liability was \$1.5 million. The total debt discount, including the embedded derivatives in the Initial Note, the incremental value of embedded derivatives in the Exchanged Note, warrant and legal and origination costs of \$13.1 million is being amortized into interest expense over the term of the Exchanged Note using the effective interest method. Under this method, interest expense is recognized each period until the debt instruments reach maturity. If the maturity of the Exchanged Note is accelerated because of prepayment, then the amortization will be accelerated. During the three and six months ended September 30, 2013, the Company recorded non-cash interest expense for amortization of the debt discount related to the convertible note of \$1.2 million and \$2.7 million, respectively. During the three and six months ended September 30, 2012, the Company recorded non-cash interest expense for amortization of the debt discount related to the convertible note of \$2.1 million and \$4.2 million, respectively.

On October 9, 2013, the Company entered into a Second Amendment and Warrant Exchange Agreement (the "Second Amendment") with CVI. The Second Amendment further amended the Securities Purchase Agreement, as amended by the First Amendment (collectively, the "Amended Purchase Agreement"), that the Company previously entered into with CVI.

Pursuant to the Second Amendment, the Company and/or CVI waived certain provisions of the Amended Purchase Agreement and amended certain provisions of the Exchanged Note, specifically,

- CVI waived its rights under the Amended Purchase Agreement to participate in (i) specific types of offerings that may be conducted by the Company with respect to the Company's currently effective Registration Statement on Form S-3 (Registration No. 333-191153), and (ii) the issuance of shares of common stock in connection with any settlement of currently outstanding litigation involving the Company; and
- the Company and CVI amended the Exchanged Note:
  - to increase the period during which CVI is allowed to accelerate payment in shares of common stock at the then current installment date conversion price from such installment date until the trading day before the next installment notice due date to the entire period from such installment date until the trading day before the next installment date; and
  - to increase the aggregate outstanding principal amount under the definition of "permitted senior indebtedness" from \$10.0 million to \$15.0 million.

Provided certain equity conditions are met, the Company may elect to repay principal and interest in shares of the Company's common stock. If the Company elects to make a payment in shares of the Company's common stock, the number of shares to be issued is determined by dividing the amount of such payment by 85% of the lesser of the average volume-weighted average price ("VWAP") of the 10 consecutive days immediately preceding the payment date or the VWAP price on the day preceding the payment date (the "Market Price"). The Company records the difference between the closing price of its common stock on the day preceding the payment date and the Market Price as a discount on the fair value of its shares. During both the three and six months ended September 30, 2013, the Company recorded \$1.8 million of non-cash interest expense related to installment payments made by issuing the Company's common stock at a discount, compared to \$0.2 million during both the three and six months ended September 30, 2012.

The Exchanged Note and the Amended Purchase Agreement contain certain covenants and restrictions, including, among others, that for so long as the Exchanged Note is outstanding, the Company will not incur any indebtedness (other than permitted indebtedness under the Exchanged Note), permit liens on its properties (other than permitted liens under the Exchanged Note), make payments on junior securities or declare dividends. The Exchanged Note also contains limitations on the transfer of certain assets. Events of default under the Exchanged Note include failure to pay principal or interest as due on the Exchanged Note, failure to deliver registered shares of common stock upon the holders request for conversion of part or all of the Exchanged Note, failure to maintain the Company's common stock eligible for trading on defined markets, cross defaults to other material indebtedness, receipt of uninsured judgments against the Company in excess of defined limits and other administrative covenants, including the Term Loan discussed below, as defined in the Exchanged Note and related documentation. Upon an event of default, the holders may require the Company to redeem all or any portion of the outstanding principal amount of the Exchanged Note in

cash plus a penalty as specified in the agreement. Also, if the Company fails to maintain an effective registration statement covering common stock to be used in settling obligations under the Exchanged Note, the Company will be required to pay a penalty as specified in the agreement.

## Senior Secured Term Loan

On June 5, 2012, the Company entered into a Term Loan with Hercules Technology Growth Capital, Inc. ( Hercules ), under which the Company borrowed \$10.0 million (the Term Loan ). After the closing fees and expenses, the net proceeds to the Company were \$9.7 million. The Term Loan bears an interest rate equal to 11% plus the percentage, if any, by which the prime rate as reported by The Wall Street Journal exceeds 3.75%. The Company made interest-only payments from July 1, 2012 through October 31, 2012, after which the Company began repaying the Term Loan in equal monthly installments ending on December 1, 2014. The Term Loan is secured by substantially all of the Company s existing and future assets, including a mortgage on real property owned by the Company s wholly-owned subsidiary, ASC Devens LLC, and located at 64 Jackson Road, Devens, Massachusetts. In addition, Hercules received a warrant to purchase 139,276 shares of common stock, exercisable at an initial strike price of \$3.59 per share, subject to adjustment, until December 5, 2017. Due to certain adjustment provisions within the warrant, it qualified for liability accounting and the fair value of \$0.4 million was recorded upon issuance, which the Company recorded as a debt discount and a warrant liability. (See Note 11, Warrants and Derivative Liabilities, for a discussion on warrants and the valuation assumptions used.) The Company will pay an end of term fee of \$0.5 million upon the earlier of maturity or prepayment of the loan. The Company has accrued the term fee and recorded a corresponding amount into the debt discount. In addition, the Company incurred \$0.3 million of legal and origination costs in the year ended March 31, 2013, which have been recorded as a debt discount. The total debt discount including the warrant, end of term fee and legal and origination costs of \$1.2 million is being amortized into interest expense over the term of the Term Loan using the effective interest method. Under this method, interest expense is recognized each period until the debt instrument reaches maturity. If the maturity of the Term Loan is accelerated because of prepayment, then the amortization will be accelerated. During the three and six months ended September 30, 2013, the Company recorded non-cash interest expense for amortization of the debt discount related to the Term Loan of \$0.1 million and \$0.3 million, respectively. During the three and six months ended September 30, 2012, the Company recorded non-cash interest expense for amortization of the debt discount related to the Term Loan of \$0.2 million and \$0.3 million, respectively.

The Term Loan contains certain covenants that restrict the Company s ability to, among other things, incur or assume certain debt, merge or consolidate, materially change the nature of the Company s business, make certain investments, acquire or dispose of certain assets, make guaranties or grant liens on its assets, make certain loans, advances or investments, declare dividends or make distributions or enter into transactions with affiliates. In addition, the Term Loan contains a covenant that requires the Company to maintain a minimum unrestricted cash balance in the United States of at least \$10.0 million at the inception of the Term Loan, which decreased starting November 1, 2012 and monthly thereafter by the amount of principal paid. The events of default under the Term Loan 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 Loan.

Although the Company believes that it is in and expects to remain in compliance with the covenants and restrictions under the Exchanged Notes and Term Loan as of the date of this Quarterly Report on Form 10-Q, there can be no assurance that the Company will continue to be in compliance.

Interest expense on the Exchanged Note and Term Loan for the three and six months ended September 30, 2013 was \$3.5 million and \$5.6 million, respectively, which included \$3.1 million and \$4.8 million, respectively, of non-cash interest expense related to the amortization of the debt discount on the Exchanged Note and Term Loan and payment of the Exchanged Note in Company common stock at a discount. Interest expense on the Exchanged Note and Term Loan for the three and six months ended September 30, 2012 was \$3.0 million, and \$5.7 million, respectively, which included \$2.3 million and \$4.4 million, of non-cash interest expense related to the amortization of the debt discount on the Exchanged Note and Term Loan, respectively.



## 11. Warrants and Derivative Liabilities

## Senior Convertible Note Warrant

On April 4, 2012, the Company entered into a Purchase Agreement for the Initial Note and on December 20, 2012, the Company entered into the Amendment pursuant to which it exchanged the Initial Note for the Exchanged Note, as described in Note 10. The Initial Note included a warrant to purchase 3,094,060 shares of the Company's common stock. The warrant is exercisable at any time on or after the date that is six months after the issuance of the warrant and entitles CVI to purchase shares of the Company's common stock for a period of five years from the initial date the warrant becomes exercisable at a price equal to \$5.45 per share, subject to certain price-based and other anti-dilution adjustments. The warrant may not be exercised if, after giving effect to the conversion, CVI together with its affiliates would beneficially own in excess of 4.99% of the Company's common stock. This percentage may be raised to any other percentage not in excess of 9.99% at the option of CVI, upon at least 61-days prior notice to the Company, or lowered to any other percentage, at the option of CVI, at any time.

The Company calculated the fair value of the derivative liabilities, as further described in Note 10 Debt, and warrants utilizing an integrated lattice model. The lattice model is an option pricing model that involves the construction of a binomial tree to show the different paths that the underlying asset may take over the option's life. A lattice model can take into account expected changes in various parameters such as volatility over the life of the options, providing more accurate estimates of option prices than the Black-Scholes model.

The Company accounts for the warrant as a liability due to certain adjustment provisions within the warrant, which requires that it be recorded at fair value. The warrant is 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 income (expense) until the earlier of expiration or its exercise at which time the warrant liability will be reclassified to equity.

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

| Fiscal Year 2013               | September 30,<br>2013 | June 30,<br>2013 |
|--------------------------------|-----------------------|------------------|
| Risk-free interest rate        | 1.02%                 | 1.13%            |
| Expected annual dividend yield | %                     | %                |
| Expected volatility            | 72.0%                 | 71.9%            |
| Term (years)                   | 4.01                  | 4.27             |
| Fair value                     | \$ 2.5 million        | \$ 3.0 million   |

| Fiscal Year 2012               | March 31,<br>2013 | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 | April 4,<br>2012 |
|--------------------------------|-------------------|----------------------|-----------------------|------------------|------------------|
| Risk-free interest rate        | 0.67%             | 0.75%                | 0.63%                 | 0.77%            | 1.19%            |
| Expected annual dividend yield | %                 | %                    | %                     | %                | %                |
| Expected volatility            | 71.7%             | 80.6%                | 80.9%                 | 80.8%            | 80.0%            |
| Term (years)                   | 4.51              | 4.76                 | 5.01                  | 5.28             | 5.5              |

|            |                |                |                |                |                |
|------------|----------------|----------------|----------------|----------------|----------------|
| Fair value | \$ 3.4 million | \$ 4.4 million | \$ 7.1 million | \$ 8.6 million | \$ 7.0 million |
|------------|----------------|----------------|----------------|----------------|----------------|

The Company recorded a gain, resulting from the decrease in the fair value of the CVI warrant, of \$0.5 million and \$0.9 million to change in fair value of derivatives and warrants in the three and six months ended September 30, 2013, respectively. The Company recorded a gain of \$1.5 million and a loss of \$0.1 million in the three and six months ended September 30, 2012, respectively.

On October 9, 2013, the Company entered into the Second Amendment with CVI. Pursuant to the Second Amendment, the Company exchanged the warrant for a new warrant (the Exchanged Warrant ), with a reduced exercise price of \$2.61 per share of common stock. Other than the reduced exercise price, the Exchanged Warrant has the same terms and conditions as the original warrant. The Company expects to record approximately \$1.1 million to non-cash interest expense for the impact of the Second Amendment on the warrant liability during the three months ending December 31, 2013.

## Senior Convertible Note Derivative Liability

The Company determined certain embedded derivatives issued with the Initial Note required accounting as a liability, which requires they be accounted for as a standalone liability subject to revaluation at each balance sheet date with changes in fair value recorded as change in fair value of derivatives and warrants until the earlier of exercise or expiration.

The terms of the December 2012 debt modification reduced the conversion price of the Initial Note from \$4.85 per share to \$3.19 per share in the Exchanged Note. As a result the Company revalued these derivatives pre- and post-modification and recorded the difference of \$0.5 million as a debt discount and a derivative liability. (See Note 10, Debt, for further discussion.)

Following is a summary of the key assumptions used to value the convertible notes derivative features:

| Fiscal Year 2013                | September 30,<br>2013 | June 30,<br>2013 |
|---------------------------------|-----------------------|------------------|
| Principal outstanding (000 s)   | \$ 10,411             | \$ 14,389        |
| Stock price                     | \$ 2.34               | \$ 2.64          |
| Percentage volume condition met | 80.2%                 | 87.5%            |
| Expected volatility             | 66.3%                 | 65.8%            |
| Risk free interest rate         | 0.10%                 | 0.21%            |
| Bond yield                      | 15.5%                 | 16.7%            |
| Recovery rate                   | 35.0%                 | 37.0%            |
| Redeemable                      | yes                   | yes              |
| Total time (years)              | 1.00                  | 1.26             |
| Dilution effect                 | yes                   | yes              |
| Fair value                      | \$ 0.2 million        | \$ 0.5 million   |
| Fair value as a percent of par  | 0.7 %                 | 3.3%             |

|                                 | March 31,<br>2013 | December 31,<br>2012 | Post-<br>modification<br>December 20,<br>2012 | Pre-modification<br>December 20,<br>2012 | September 30,<br>2012 | June 30,<br>2012 | April 4,<br>2012 |
|---------------------------------|-------------------|----------------------|-----------------------------------------------|------------------------------------------|-----------------------|------------------|------------------|
| Principal outstanding           | \$ 15,380         | \$ 20,944            | \$ 20,944                                     | \$ 24,074                                | \$ 24,074             | \$ 25,000        | \$ 25,000        |
| Stock price                     | \$ 2.67           | \$ 2.62              | \$ 2.95                                       | \$ 2.95                                  | \$ 4.15               | \$ 4.68          | \$ 3.19          |
| Percentage volume condition met | 80.5%             | 94.5%                | 94.9%                                         | 28.6%                                    | 51.0%                 | 75.2%            | 87.5%            |
| Expected volatility             | 66.9%             | 73.5%                | 72.5%                                         | 72.5%                                    | 70.0%                 | 71.0%            | 71.0%            |
| Risk free interest rate         | 0.20%             | 0.23%                | 0.25%                                         | 0.25%                                    | 0.23%                 | 0.33%            | 0.33%            |

|       |                |                |                |                |                |                |             |
|-------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|
| ee    |                |                |                |                |                |                |             |
| rate  |                |                |                |                |                |                |             |
| field | 16.5%          | 16.5%          | 16.5%          | 16.5%          | 15.0%          | 16.0%          | 1           |
| ry    |                |                |                |                |                |                |             |
|       | 30.0%          | 30.0%          | 30.0%          | 30.0%          | 30.0%          | 30.0%          | 3           |
| nable | yes            | yes            | yes            | yes            | yes            | yes            |             |
| me    |                |                |                |                |                |                |             |
|       | 1.51           | 1.76           | 1.79           | 1.79           | 2.01           | 2.28           |             |
| n     |                |                |                |                |                |                |             |
|       | yes            | yes            | yes            | yes            | yes            | yes            |             |
| ue    |                |                |                |                |                |                |             |
| cent  |                |                |                |                |                |                |             |
|       | 3.4%           | 4.9%           | 7.1%           | 3.9%           | 11.4%          | 17.9%          | 1           |
| ue    | \$ 0.5 million | \$ 1.0 million | \$ 1.5 million | \$ 0.9 million | \$ 2.8 million | \$ 4.5 million | \$ 3.8 mill |

Based on historical VWAP of the Company's common stock as well as the historic average dollar trading volume of the Company's common stock, the percentage volume condition is the probability that the Company will convert monthly installment payments into the Company's common stock. The expected volatility rate was estimated based on an equal weighting of the historical volatility of the Company's common stock and the implied volatility of the Company's traded options. To determine the risk-free interest rate, an interpolated rate was used based on the one, two and three-year United States Treasury rates. The bond yield was estimated using comparable corporate debt and yield information. The recovery rate of the Exchanged Note was estimated by reviewing historical corporate debt that went into default. The bond is redeemable by the Company at any point after the one-year anniversary of the grant date provided certain provisions within the note. The total time is based on the actual 30-month contractual terms. It was determined that there is a dilution effect based on the Company's ability to make payments in shares of common stock.

The Company recorded the decrease in the fair value of the derivative liabilities of \$0.3 million as a gain to changes in fair value of derivatives and warrants in both the three and six months ended September 30, 2013, and similarly, gains of \$1.7 million and \$1.0 million in the three and six months ended September 30, 2012, respectively.

#### Senior Secured Term Loan Warrant

On June 5, 2012, the Company entered into a Loan and Security Agreement with Hercules. (See Note 10, Debt, for additional information regarding the Loan and Security Agreement.) In conjunction with this agreement, the Company issued a warrant to purchase 139,276 shares of the Company's common stock. The warrant is exercisable at any time after the issuance of the warrant and expires on December 5, 2017, at a price equal to \$3.59 per share subject to certain price-based and other anti-dilution adjustments.

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

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

|                                | September 30,<br>2013 | June 30,<br>2013 |
|--------------------------------|-----------------------|------------------|
| Fiscal Year 2013               |                       |                  |
| Risk-free interest rate        | 1.09%                 | 1.20%            |
| Expected annual dividend yield | %                     | %                |
| Expected volatility            | 72.1%                 | 72.3%            |
| Term (years)                   | 4.18                  | 4.43             |
| Fair Value                     | \$ 0.2 million        | \$ 0.2 million   |

|                                | March 31,<br>2013 | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 | June 5,<br>2012 |
|--------------------------------|-------------------|----------------------|-----------------------|------------------|-----------------|
| Fiscal Year 2012               |                   |                      |                       |                  |                 |
| Risk-free interest rate        | 0.70%             | 0.75%                | 0.64%                 | 0.80%            | 0.77%           |
| Expected annual dividend yield | %                 | %                    | %                     | %                | %               |
| Expected volatility            | 72.01%            | 80.14%               | 81.18%                | 80.32%           | 79.99%          |

|              |                |                |                |                |                |
|--------------|----------------|----------------|----------------|----------------|----------------|
| Term (years) | 4.68           | 4.93           | 5.18           | 5.44           | 5.5            |
| Fair Value   | \$ 0.2 million | \$ 0.2 million | \$ 0.4 million | \$ 0.5 million | \$ 0.4 million |

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

The Company recorded a decrease in the fair value of the Hercules warrant resulting in a gain of less than \$0.1 million during the three and six months ended September 30, 2013. The Company recorded a decrease in the fair value of \$0.1 million as a gain to change in fair value of derivatives and warrants during the three months ended September 30, 2012 and recorded no change during the six months ended September 30, 2012.

## 12. Commitments and Contingencies

### Commitments

#### Purchase Commitments

The Company periodically enters into non-cancelable purchase contracts in order to ensure the availability of materials to support production of its products. Purchase commitments represent enforceable and legally binding agreements with suppliers to purchase goods or services. The Company periodically assesses the need to provide for impairment on these purchase contracts and record a loss on purchase commitments when required. As of September 30, 2013, the Company reported a liability for adverse purchase commitments of \$1.0 million. During the three and six months ended September 30, 2013, the Company reduced its accrual for adverse purchase commitments by \$0.2 million and \$0.5 million, respectively, due to payments to certain vendors.

#### Legal Contingencies

From time to time, the Company is involved in legal and administrative proceedings and claims of various types. The Company records a liability in its consolidated financial statements for these matters when a loss is known or considered probable and the amount can be reasonably estimated. The Company reviews these estimates each accounting period as additional information is known and adjusts the loss provision when appropriate. If a matter is both probable to result in a liability and the amounts of loss can be reasonably estimated, the Company estimates and discloses the possible loss or range of loss. If the loss is not probable or cannot be reasonably estimated, a liability is not recorded in its consolidated financial statements.

Between April 6, 2011 and May 12, 2011, seven putative securities class action complaints were filed against the Company and two of its officers in the United States District Court for the District of Massachusetts; one complaint additionally asserted claims against the underwriters who participated in our November 12, 2010 securities offering. On June 7, 2011, the United States District Court for the District of Massachusetts consolidated these actions under the caption *Lenartz v. American Superconductor Corporation, et al.*, Docket No. 1:11-cv-10582-WGY. On August 31, 2011, Lead Plaintiff, the Plumbers and Pipefitters National Pension Fund, filed a consolidated amended complaint against the Company, its officers and directors, and the underwriters who participated in our November 12, 2010 securities offering, asserting claims under sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the Exchange Act ) and Rule 10b-5 promulgated under the Exchange Act, as well as under sections 11, 12(a)(2) and 15 of the Securities Act of 1933 (the Securities Act ). The complaint alleges that during the relevant class period, the Company and its officers omitted to state material facts and made materially false and misleading statements relating to, among other things, its projected and recognized revenues and earnings, as well as its relationship with Sinovel Wind Group Co., Ltd. that artificially inflated the value of the Company's stock price. The complaint further alleges that the Company's November 12, 2010 securities offering contained untrue statements of material facts and omitted to state material facts required to be stated therein. The plaintiffs seek unspecified damages, rescindment of the Company's November 12, 2010 securities offering, and an award of costs and expenses, including attorney's fees. All defendants moved to dismiss the consolidated amended complaint. On December 16, 2011, the district court issued a summary order declining to dismiss the Securities Act claims against the Company and its officers, and taking under advisement the motion to dismiss the Exchange Act claims against the Company and its officers and the motion to dismiss the Securities Act claims made against the underwriters. On July 26, 2012, the district court dismissed the Exchange Act claims against the Company and its officers and denied the motion to dismiss the Securities Act claims made against the underwriters. On May 17, 2013, the parties informed the district court that they had reached a settlement in principle, and requested a 30-day stay of the proceedings while the specific terms of the settlement continue to be negotiated. Based on the Company's assessment of the probable losses on this claim, the Company has recorded a loss contingency of \$1.8 million as of September 30, 2013.



Between May 4, 2011 and June 17, 2011, four putative shareholder derivative complaints were filed against the Company (as a nominal defendant) and certain of its directors in the United States District Court for the District of Massachusetts. On July 5, 2011, the District Court consolidated three of these actions, and that matter is now captioned *In re American Superconductor Corporation Derivative Litigation*, Docket No. 1:11-cv-10784-WGY. On June 1, 2011, the plaintiff in the fourth action, Marlborough Family Revocable Trust v. Yurek, et al., moved to voluntarily dismiss its complaint and refiled its complaint in Superior Court for the Commonwealth of Massachusetts, Middlesex County. On September 7, 2011, the Marlborough action and another putative shareholder derivative complaint filed in Superior Court for the Commonwealth of Massachusetts were consolidated. That consolidated matter is captioned *In re American Superconductor Corporation Shareholder Derivative Litigation*, Docket No. 11-1961. On January 12, 2012, an additional shareholder derivative complaint was filed in the Court of Chancery for the State of Delaware. That matter is captioned *Krasnoff v. Budhraj, et al.*, Docket No. 7171. The allegations of the derivative complaints mirror the allegations made in the putative class action complaints described above. The plaintiffs purport to assert claims against the director defendants for breach of fiduciary duty, abuse of control, gross mismanagement, unjust enrichment and corporate waste. On October 23, 2013, the parties informed the Massachusetts state court that the derivative plaintiffs, including those in the federal district court and the Delaware Court of Chancery, had reached a settlement in principle, and requested a 90-day stay of the proceedings while the specific terms of the settlement continue to be negotiated. The plaintiffs seek unspecified damages on behalf of the Company, as well as an award of costs and expenses, including attorney's fees. Based on the Company's assessment that the probable losses on this claim are insignificant, no loss contingency was recorded as of September 30, 2013.

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

On October 8, 2011, Sinovel filed with the Beijing Arbitration Commission an application under the caption (2011) Jing Zhong An Zi No. 0963, for a counterclaim against the Company for breach of the same contracts under which the Company filed its original arbitration claim. Sinovel claimed, among other things, that the goods supplied by the Company do not conform to the standards specified in the contracts and claimed damages in the amount of approximately RMB 370 million (\$58 million). On October 17, 2011, Sinovel filed with the Beijing Arbitration Commission a request for change of counterclaim to increase its damage claim to approximately RMB 1 billion (\$157 million). On December 22, 2011, Sinovel filed with the Beijing Arbitration Commission an additional request for change of counterclaim to increase its damages claim to approximately RMB 1.2 billion (\$190 million). On February 27, 2012, Sinovel filed with the Beijing Arbitration Commission an application under the caption (2012) Jing Zhong An Zi No. 0157, against the Company for breach of the same contracts under which the Company filed its original arbitration claim. Sinovel claimed, among other things, that the goods supplied by the Company do not conform to the standards specified in the contracts and claimed damages in the amount of approximately RMB 105 million (\$17 million). The Company believes that Sinovel's claims are without merit and it intends to defend these actions vigorously. Since the proceedings in this matter are in relatively early stages, the Company cannot reasonably estimate possible losses or range of losses at this time.



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

Sinovel filed a new motion on June 18, 2012, to remove this case from the Beijing No. 1 Intermediate People's Court to the court located in Gansu Province. On October 19, 2012, the court disallowed Sinovel's motion due to its late filing.

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

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

Ghodawat Energy Pvt Ltd ( Ghodawat ), a company registered in India carrying on the business of wind power development, lodged a Request for Arbitration with the Secretariat of the ICC International Court of Arbitration on May 12, 2011 and named AMSC Windtec GmbH ( AMSC Austria ) as the Respondent. Under the Request for Arbitration, Ghodawat alleges that AMSC Austria breached an agreement dated March 19, 2008 pursuant to which AMSC Austria granted a license to Ghodawat to manufacture, use, sell, market, erect, commission and maintain certain wind turbines using its technical information and wind turbine design (the License Agreement ). Under the Request for Arbitration, Ghodawat's claims in this arbitration amount to approximately 18 million (\$24 million). AMSC Austria filed an Answer to Request for Arbitration and Counterclaim ( Answer and Counterclaim ), in which AMSC Austria denied Ghodawat's claims in their entirety. AMSC Austria has also submitted counterclaims under the License Agreement against Ghodawat in the amount of approximately 6 million (\$9 million). Ghodawat has filed a Reply to Answer to Request for Arbitration and Counterclaim in which it denies AMSC Austria's counterclaims. On June 3, 2013, the final oral submissions hearing was conducted and the Company believes it will take several months for the Tribunal to render a decision. The Company has recorded a loss contingency based on its assessment of probable losses on this claim; however this amount of loss contingency that has been recorded is immaterial to its consolidated financial statements.

#### Other

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

As of September 30, 2013 the Company had \$2.0 million of restricted cash included in current assets, and \$4.9 million of restricted cash included in long-term assets. These amounts included in restricted cash represent deposits to secure letters of credit for various supply contracts. These deposits are held in interest bearing accounts.

As of September 30, 2013, the Company had one performance bond in support of customer contracts. The total value of the outstanding performance bond is \$0.2 million with an expiration date of March 2014. In the event that the payment is made in accordance with the requirements of any of these performance bonds, the Company would record the payment as an offset to revenue.

The Company had an unused, unsecured line of credit consisting of 2.7 million (approximately \$3.6 million) in Austria as of September 30, 2013.

## 13. Minority Investments

## Investment in Tres Amigas

On October 9, 2009, the Company made an investment in Tres Amigas LLC, a Delaware limited liability company ( Tres Amigas ), focused on providing the first common interconnection of America's three power grids to help the country achieve its renewable energy goals and facilitate the smooth, reliable and efficient transfer of green power from region to region, for \$1.8 million, consisting of \$0.8 million in cash and \$1.0 million in AMSC common stock. On January 6, 2011 and May 20, 2011, the Company increased its minority position in Tres Amigas by investing an additional \$1.8 million in cash on each date. As of September 30, 2013, the Company holds a 26% ownership interest in Tres Amigas.

The Company's investment in Tres Amigas is included in other assets on the consolidated balance sheet and the equity in undistributed losses of Tres Amigas is included in other expense, net, on the unaudited condensed consolidated statements of operations.

The net investment activity for the six months ended September 30, 2013 is as follows (in thousands):

|                                 |          |
|---------------------------------|----------|
| Balance at April 1, 2013        | \$ 2,853 |
| Minority interest in net losses | (499)    |
| Balance at September 30, 2013   | \$ 2,354 |

## Investment in Blade Dynamics Ltd.

On August 12, 2010, the Company acquired (through its Austrian subsidiary), a minority ownership position in Blade Dynamics Ltd. ( Blade Dynamics ), a designer and manufacturer of advanced wind turbine blades based on proprietary materials and structural technologies, for \$8.0 million in cash. As of September 30, 2013, the Company holds a 19% ownership interest in Blade Dynamics.

The investment is carried at the acquisition cost, plus the Company's equity in undistributed earnings or losses, through December 1, 2012 the date which the company no longer reports undistributed earnings or losses. The Company's investment in Blade Dynamics is included in other assets on the unaudited condensed consolidated balance sheet and the equity in undistributed losses of Blade Dynamics is included in other expense, net, on the unaudited condensed consolidated statements of operations.

The net investment activity for the six months ended September 30, 2013 is as follows (in thousands):

|                                  |          |
|----------------------------------|----------|
| Balance at April 1, 2013         | \$ 4,611 |
| Net foreign exchange rate impact | 254      |
| Balance at September 30, 2013    | \$ 4,865 |

## 14. Business Segments

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

Through its Windtec Solutions, the Wind business segment enables manufacturers to field wind turbines with highly competitive power output, reliability and affordability. The Company supplies advanced power electronics and control systems, licenses its highly engineered wind turbine designs, and provides extensive customer support services to wind turbine manufacturers. Its design portfolio includes a broad range of drive trains and power ratings. It provides a broad range of power electronics and software-based control systems that are highly integrated and designed for optimized performance, efficiency, and grid compatibility.

Through its Gridtec Solutions, the Grid business segment enables electric utilities and renewable energy project developers to connect, transmit and distribute power with highly competitive efficiency, reliability and affordability. The Company provides transmission planning services that allow it to identify power grid congestion, poor power quality and other risks, which help the Company determine how its solutions can improve network performance. These services often lead to sales of grid interconnection solutions for wind farms and solar power plants, power quality systems and transmission and distribution cable systems.

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

|           | Three months ended<br>September 30, |           | Six months ended<br>September 30, |           |
|-----------|-------------------------------------|-----------|-----------------------------------|-----------|
|           | 2013                                | 2012      | 2013                              | 2012      |
| Revenues: |                                     |           |                                   |           |
| Wind      | \$ 14,691                           | \$ 12,002 | \$ 29,392                         | \$ 28,513 |
| Grid      | 9,490                               | 8,865     | 17,875                            | 21,070    |
| Total     | \$ 24,181                           | \$ 20,867 | \$ 47,267                         | \$ 49,583 |

|                                | Three months ended<br>September 30, |             | Six months ended<br>September 30, |             |
|--------------------------------|-------------------------------------|-------------|-----------------------------------|-------------|
|                                | 2013                                | 2012        | 2013                              | 2012        |
| Operating loss:                |                                     |             |                                   |             |
| Wind                           | \$ (2,449)                          | \$ (6,449)  | \$ (4,274)                        | \$ (5,148)  |
| Grid                           | (5,750)                             | (6,572)     | (10,618)                          | (11,915)    |
| Unallocated corporate expenses | (2,829)                             | (1,949)     | (4,985)                           | (4,035)     |
| Total                          | \$ (11,028)                         | \$ (14,970) | \$ (19,877)                       | \$ (21,098) |

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

Unallocated corporate expenses primarily consist of stock-based compensation expense of \$2.2 million and \$4.3 million for the three and six months ended September 30, 2013, respectively. Unallocated corporate expenses primarily consist of stock-based compensation expense of \$2.0 million and \$4.0 million for the three and six months ended September 30, 2012, respectively.

Total assets for the two business segments are as follows (in thousands):

|                  | September 30,<br>2013 | March 31,<br>2013 |
|------------------|-----------------------|-------------------|
| Wind             | \$ 50,304             | \$ 67,111         |
| Grid             | 63,244                | 72,800            |
| Corporate assets | 58,977                | 76,843            |

Total                      \$     172,525                      \$ 216,754

The following table sets forth customers who represented 10% or more of the Company's total revenues for the three and six months ended September 30, 2013 and 2012:

|                                       | Three months<br>ended<br>September 30,<br>2013      2012 |      | Six months<br>ended<br>September 30,<br>2013      2012 |     |
|---------------------------------------|----------------------------------------------------------|------|--------------------------------------------------------|-----|
| Beijing JINGCHENG New Energy Co., Ltd | 28%                                                      | 26%  | 31%                                                    | 22% |
| INOX Wind Limited                     | 27%                                                      | 19%  | 21%                                                    | 17% |
| Karara Mining Ltd                     | <10%                                                     | <10% | <10%                                                   | 13% |

## 15. Recent Accounting Pronouncements

In January 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities (ASU 2013-01). The main objective in developing this update is to address implementation issues about the scope of Accounting Standards Update No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The update requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. ASU 2013-01 is effective for our first quarter of fiscal 2013. The Company adopted ASU 2013-01 and it did not have a material impact on the Company's consolidated results of operations, financial condition, or cash flows.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02). The amendments of this ASU require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income (AOCI) by component. In addition, an entity is required to present, either on the face of the statement where net income (loss) is presented or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 is effective for fiscal years and interim periods beginning after December 15, 2012. The Company adopted ASU 2013-02 and it did not have a material impact on the Company's consolidated results of operations, financial condition, or cash flows.

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (ASU 2013-05). The objective of the amendments in this update is to resolve the diversity in practice about whether Subtopic 810-10, Consolidation—Overall, or Subtopic 830-30, Foreign Currency Matters—Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. In addition, the amendments in this Update resolve the diversity in practice for the treatment of business combinations achieved in involving a foreign entity. ASU 2013-05 is effective for fiscal years and interim periods beginning after December 15, 2013. The Company is currently evaluating the impact of ASU 2013-05, but currently does not believe there will be a significant impact on the Company's consolidated results of operations, financial condition, or cash flows.

In June 2013, the FASB issued ASU 2013-07, Liquidation Basis of Accounting, to require entities to begin preparing financial statements on a liquidation basis when liquidation is imminent. The guidance requires liquidation accounting when liquidation is imminent, unless an entity is outside the scope of the guidance or it is following a liquidation plan established at its inception. The guidance says liquidation is imminent when either, the party or parties with the authority to approve a liquidation plan do so or other forces (e.g., involuntary bankruptcy) impose a plan for liquidation, and the likelihood that the entity will return from liquidation is remote. The guidance also requires entities using the liquidation basis of accounting to measure their assets at the amount they expect to collect upon sale and liabilities are not remeasured to reflect any anticipation that the entity will be legally released from the obligation. ASU 2013-07 is effective for annual periods beginning after December 15, 2013. The Company is currently evaluating the impact of adopting ASU 2013-07, but currently does not believe there will be an impact on its consolidated results of operations, financial condition, or cash flows.



In September 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The guidance states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company is currently evaluating the impact of adopting ASU 2013-11, but currently does not believe there will be an impact on its consolidated results of operations, financial condition, or cash flow.

The Company does not believe that other recently issued accounting pronouncements will have a material impact on its financial statements.

#### 16. Subsequent Events

On October 9, 2013, the Company entered into a Second Amendment with CVI. (See Note 10 Debt and Note 11 Warrant and Derivative Liabilities .)

AMERICAN SUPERCONDUCTOR CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For this purpose, any statements contained herein that relate to future events or conditions, including without limitation, the statements in Part II, Item 1A. Risk Factors and in Part I under Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and located elsewhere herein regarding industry prospects or our prospective results of operations or financial position, may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements. Such forward-looking statements represent management's current expectations and are inherently uncertain. There are a number of important factors that could materially impact the value of our common stock or cause actual results to differ materially from those indicated by such forward-looking statements. Such factors include: We have experienced recurring operating losses and recurring negative cash flows from operations which raise substantial doubt about our ability to continue as a going concern. This substantial doubt has resulted in a qualified opinion from our auditors with an explanatory paragraph regarding our ability to continue as a going concern. We believe this opinion may have an adverse effect on our customer and supplier relationships; our success in addressing the wind energy market is dependent on the manufacturers that license our designs; we may not realize all of the sales expected from our backlog of orders and contracts; our business and operations would be adversely impacted in the event of a failure or security breach of our information technology infrastructure; our success is dependent upon attracting and retaining qualified personnel and our inability to do so could significantly damage our business and prospects; we rely upon third-party suppliers for the components and subassemblies of many of our Wind and Grid products, making us vulnerable to supply shortages and price fluctuations, which could harm our business; many of our revenue opportunities are dependent upon subcontractors and other business collaborators; if we fail to implement our business strategy successfully, our financial performance could be harmed; problems with product quality or product performance may cause us to incur warranty expenses and may damage our market reputation and prevent us from achieving increased sales and market share; new regulations related to conflict-free minerals may force us to incur significant additional expenses; our contracts with the U.S. government are subject to audit, modification or termination by the U.S. government and include certain other provisions in favor of the government; the continued funding of such contracts remains subject to annual congressional appropriation which, if not approved, could reduce our revenue and lower or eliminate our profit; 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; many of our customers outside of the United States are, either directly or indirectly, related to governmental entities, and we could be adversely affected by violations of the United States Foreign Corrupt Practices Act and similar worldwide anti-bribery laws outside the United States; we have limited experience in marketing and selling our superconductor products and system-level solutions, and our failure to effectively market and sell our products and solutions could lower our revenue and cash flow; we have experienced recurring losses from operations and negative operating cash flow; these factors raise substantial doubt regarding our ability to continue as a going concern; we have a history of operating losses, and we may incur additional losses in the future; our operating results may fluctuate significantly from quarter to quarter and may fall below expectations in any particular fiscal quarter; we may require additional funding in the future and may be unable to raise capital when needed; our debt obligations include certain covenants and other events of default; should we not comply with the covenants or incur an event of default, we may be required to repay our debt obligations in cash, which could have an adverse effect on our liquidity; if we fail to maintain proper and effective internal controls over financial reporting, our ability to produce accurate and timely financial statements could be

impaired and may lead investors and other users to lose confidence in our financial data; we may be required to issue performance bonds or provide letters of credit, which restricts our ability to access any cash used as collateral for the bonds or letters of credit; changes in exchange rates could adversely affect our results from operations; growth of the wind energy market depends largely on the availability and size of government subsidies and economic incentives; we depend on sales to customers in China, and global conditions could negatively affect our operating results or limit our ability to expand our operations outside of China; changes in China's political, social, regulatory and economic environment may affect our financial performance; our products face intense competition, which could limit our ability to acquire or retain customers; our international operations are subject to risks that we do not face in the United States, which could have an adverse effect on our operating results; adverse changes in domestic and global economic conditions could adversely affect our operating results; we may be unable to adequately prevent disclosure of trade secrets and other proprietary information; our patents may not provide meaningful protection for our technology, which could result in us losing some or all of our market position; the

commercial uses of superconductor products are limited today, and a widespread commercial market for our products may not develop; 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; we have not manufactured our Amperium wire in commercial quantities, and a failure to manufacture our Amperium wire in commercial quantities at acceptable cost and quality levels would substantially limit our future revenue and profit potential; third parties have or may acquire patents that cover the materials, processes and technologies we use or may use in the future to manufacture our Amperium products, and our success depends on our ability to license such patents or other proprietary rights; our technology and products could infringe intellectual property rights of others, which may require costly litigation and, if we are not successful, could cause us to pay substantial damages and disrupt our business; we have filed a demand for arbitration and other lawsuits against our former largest customer, Sinovel, regarding amounts we contend are overdue. We cannot be certain as to the outcome of these proceedings; we have been named as a party to purported stockholder class actions and stockholder derivative complaints, 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; our 7% convertible note contains warrants and provisions that could limit our ability to repay the note in shares of common stock and should the note be repaid in stock, shareholders could experience significant dilution; our common stock has experienced, and may continue to experience, significant market price and volume fluctuations, which may prevent our stockholders from selling our common stock at a profit and could lead to costly litigation against us that could divert our management's attention. These and the important factors discussed under the caption "Risk Factors" in Part 1. Item 1A of our Form 10-K for the fiscal year ended March 31, 2013, among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time. Any such forward-looking statements represent management's estimates as of the date of this Quarterly Report on Form 10-Q. While we may elect to update such forward-looking statements at some point in the future, we disclaim any obligation to do so, even if subsequent events cause our views to change. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

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## Executive Overview

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

Our wind and power grid solutions help to improve energy efficiency, alleviate power grid capacity constraints and increase the adoption of renewable energy generation. Demand for our solutions is driven by the growing needs for renewable sources of electricity, such as wind and solar energy, and for modernized smart grids that improve power reliability 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® HTS (High Temperature Superconductor) wires. These technologies and our system-level solutions are protected by a broad and deep intellectual property portfolio consisting of hundreds of patents and licenses worldwide.

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

·Wind. Through our Windtec Solutions, our Wind business segment enables manufacturers to field wind turbines with exceptional power output, reliability and affordability. We supply advanced power electronics and control systems, license our highly engineered wind turbine designs, and provide extensive customer support services to wind turbine manufacturers. Our design portfolio includes a broad range of drive trains and power ratings. We provide a broad range of power electronics and software-based control systems that are highly integrated and redesigned 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 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 grid interconnection solutions for wind farms and solar power plants, power quality systems and transmission and distribution cable systems.

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 2013 refers to the fiscal year beginning on April 1, 2013. Other fiscal years follow similarly.

On April 4, 2012, we completed a private placement of a \$25.0 million senior convertible note (the Initial Note ) with Capital Ventures International ( CVI ), an affiliate of Heights Capital Management. On December 20, 2012, we entered into an Amendment and Exchange Agreement (the Amendment ) with CVI, pursuant to which we exchanged the Initial Note for a new unsecured, senior convertible note (the Exchanged Note ), which had the same principal amount and accrued interest as the Initial Note at the time of the exchange. On October 9, 2013, we entered into a Second Amendment and Warrant Exchange Agreement (the Second Amendment ) with CVI which (i) waived certain provisions of the Amended Purchase Agreement, (ii) amended certain provisions of the Exchanged Note, and (iii) exchanged the warrant for a new warrant (the Exchanged Warrant ), with a reduced exercise price of \$2.61 per share of common stock. Other than the reduced exercise price, the Exchanged Warrant has the same terms and conditions as the original warrant. On June 5, 2012, we entered into a \$10.0 million Loan and Security Agreement ( Term Loan ) with Hercules Technology Growth Capital, Inc. See Liquidity and Capital Resources below for further discussion of these financing arrangements.

We have experienced recurring operating losses and as of September 30, 2013, had an accumulated deficit of \$825.3 million. In addition, we have experienced recurring negative operating cash flows, which have resulted in a reduction of our cash balance. These factors raise substantial doubt regarding our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty. At September 30, 2013, we had cash and cash equivalents of \$25.9 million. Cash used in operations for the six months ended September 30, 2013 was \$14.8 million.

In order for us to continue operations beyond the next twelve months and be able to discharge our liabilities and commitments in the normal course of business, we need to increase sales through executing our strategy to broaden our customer base, enter new markets, and commercialize our superconductor product line. In addition, we may need to further reduce operating expenses in line with business conditions in order to decrease the amount of cash used in operations. We must also seek new financing arrangements, including, but not limited to, new debt and/or equity financing, and continue to work with the holder of our convertible note in order to maintain the ability to make monthly amortization payments on the convertible note in shares of common stock. In addition, we are actively

seeking to sell our minority investments in Tres Amigas and Blade Dynamics and have recently engaged a financial advisor to assist with that effort. There can be no assurance that we will be able to raise additional capital or sell one or both of these investments on commercially reasonable terms or at all.

In response to the Sinovel situation discussed below and challenging market conditions, particularly in the wind power market, from April 1, 2011 through the date of this filing, the Company has substantially reduced its global workforce. In addition, we plan to consolidate certain of our office locations. These workforce reductions and planned office consolidations are expected to lower operating costs and enhance liquidity.

Our cash requirements depend on numerous factors, including the ability to pay the principal and interest on the Exchanged Note in stock, successful completion of our product development activities, ability to commercialize our product prototypes, 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 in our Superconductors business. Significant deviations to our business plan with regard to these factors, which are important drivers to our business, could have a material adverse effect on our operating performance, financial condition, and future business prospects. We expect to pursue the expansion of our operations through internal growth, diversification of our customer base, and potential strategic alliances. See below for a discussion of liquidity and capital resources.

During March 2011, we engaged in discussions with Sinovel regarding the acceptance of its scheduled shipments, outstanding receivables, and the delivery of a custom solution desired by Sinovel for low voltage ride through ( LVRT ) that required a modification to our existing LVRT design. The custom design required modified software and additional hardware. Toward the end of March, Sinovel requested that we provide them with the additional hardware without additional cost. On March 31, 2011, we proposed to Sinovel that we would provide the additional hardware without additional cost if Sinovel would accept the scheduled shipments. Sinovel rejected this proposal due to what we were told was excess inventory of our components. Since Sinovel did not give us the requisite notice under our contracts that they intended to delay deliveries, we believe that these actions constitute material breaches of our contracts.

As of the date of this filing, we have not received payment from Sinovel for any outstanding receivables nor have we been notified as to when, if ever, Sinovel will accept contracted shipments that were scheduled for delivery after March 31, 2011. Additionally, 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. The evidence presented during the court hearing 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. On June 27, 2013, the U.S. Department of Justice, following an investigation by the Federal Bureau of Investigation, charged Sinovel and two of its employees with the theft of our proprietary software code and the use of that intellectual property in four 1.5 MW Sinovel turbines that have been installed in the Massachusetts towns of Charlestown, Fairhaven, and Scituate. These parties that have installed Sinovel turbines and their contractors are not implicated in any way. Except for portions of this 1.5MW wind turbine software, we do not believe that the source code for any other turbines, such as the 3MW, 5MW and 6MW wind turbines that were designed by and co-developed with us have been transferred to Sinovel. Moreover, we believe the evidence shows 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. We believe that only the binary code, or upper layer, of the PM3000 software developed to circumvent the encryption and remove technical protection measures was transferred to Sinovel. We do not believe that any PM3000 source code was transferred to Sinovel. These actions potentially enable Sinovel to deploy, independent of us, wind turbine control software, including a low voltage ride through solution, on all of its 1.5MW wind turbines in the field. In addition, by having the wind turbine control source code, Sinovel could potentially modify the source code to allow the use of core electrical components, including power converters, from other manufacturers.

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

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

## Critical Accounting Policies and Estimates

The preparation of the unaudited condensed consolidated financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ under different assumptions or conditions. There were no significant changes in the critical accounting policies during the six months ended September 30, 2013 that were disclosed in our Form 10-K for fiscal 2012, which ended on March 31, 2013.

## Results of Operations

Three and six months ended September 30, 2013 compared to the three and six months ended September 30, 2012

## Revenues

Total revenues increased by 16% and decreased by 5% to \$24.2 million and \$47.3 million, respectively, for the three and six months ended September 30, 2013, respectively, compared to \$20.9 million and \$49.6 million for the three and six months ended September 30, 2012, respectively. Our revenues are summarized as follows (in thousands):

|                  | Three months ended<br>September 30,<br>2013 |           | Six months ended<br>September 30,<br>2013 |           |
|------------------|---------------------------------------------|-----------|-------------------------------------------|-----------|
|                  | 2013                                        | 2012      | 2013                                      | 2012      |
| <b>Revenues:</b> |                                             |           |                                           |           |
| Wind             | \$ 14,691                                   | \$ 12,002 | \$ 29,392                                 | \$ 28,513 |
| Grid             | 9,490                                       | 8,865     | 17,875                                    | 21,070    |
| Total            | \$ 24,181                                   | \$ 20,867 | \$ 47,267                                 | \$ 49,583 |

Our Wind business unit accounted for 61% and 62% of total revenues for the three and six months ended September 30, 2013, respectively, compared to 58% for both the three and six months ended September 30, 2012. Revenues in the Wind business unit increased 22% and 3% to \$14.7 million and \$29.4 million in the three and six months ended September 30, 2013, respectively, from \$12.0 million and \$28.5 million in the three and six months ended September 30, 2012, respectively. Wind business unit revenues during the three and six months ended September 30, 2013 increased primarily due to higher revenues from customers in both India and China for our electrical control systems, partially offset by lower revenues in Korea.

Our Grid business unit accounted for 39% and 38% of total revenues for the three and six months ended September 30, 2013, respectively, compared to 42% for both the three and six months ended September 30, 2012. Our Grid business unit revenues increased 7% and decreased 15% to \$9.5 million and \$17.9 million in the three and six months ended September 30, 2013, respectively, from \$8.9 million and \$21.1 million in the three and six months ended September 30, 2012, respectively. Grid business unit revenues increased in the three months ended September 30, 2013 primarily due to a large Amperium® wire shipment to a customer in Korea, while decreasing for the six months ended September 30, 2013 due primarily to lower D-VAR system revenues as a result of a large project in Australia in the prior year period.

Project HYDRA is a project with Consolidated Edison, Inc. which is being partially funded by the Department of Homeland Security ( DHS ). DHS is expected to invest up to a total of \$29.0 million in the development of a new HTS

power grid technology called Resilient Electric Grid systems. This fault current limiting cable system is designed to utilize customized Amperium® HTS wires, and ancillary controls to deliver more power through the grid while also being able to suppress power surges that can disrupt service. On July 8, 2013, DHS committed the additional \$8.6 million in funding on Project HYDRA. DHS has now committed 100% of the total expected funding for this project. Consolidated Edison and Southwire Company are our subcontractors on this project. We recorded \$1.0 million and \$1.1 million of revenue on this project for the three and six months ended September 30, 2013, respectively, and \$0.8 million and \$1.1 million for the three and six months ended September 30, 2012, respectively.

The following table sets forth customers who represented 10% or more of our total revenues for the three and six months ended September 30, 2013 and 2012:

|                                       | Three months ended<br>September 30, |      | Six months ended<br>September 30, |      |
|---------------------------------------|-------------------------------------|------|-----------------------------------|------|
|                                       | 2013                                | 2012 | 2013                              | 2012 |
| Beijing JINGCHENG New Energy Co., Ltd | 28%                                 | 26%  | 31%                               | 22%  |
| INOX Wind Limited                     | 27%                                 | 19%  | 21%                               | 17%  |
| Karara Mining Ltd                     | <10%                                | <10% | <10%                              | 13%  |

#### Cost of Revenues and Gross Margin

Cost of revenues was \$22.6 million and \$40.6 million for the three and six months ended September 30, 2013, respectively, compared to \$20.4 million and \$37.3 million for the three and six months ended September 30, 2012, respectively. Gross margin was 6.5% and 14.1% for the three and six months ended September 30, 2013, respectively, compared to 2.3% and 24.8% for the three and six months ended September 30, 2012, respectively. The increase in gross margin for the three months ended September 30, 2013 as compared to the same period in fiscal 2012 was primarily due to increased consumption of previously written off inventory in the current year period, partially offset by settlements of certain adverse purchase order liabilities resulting in a benefit to cost of revenues of \$1.0 million in the prior year period which did not recur. The decrease in gross margin for the six months ended September 30, 2013 was primarily due to non-recurring settlements of certain adverse purchase order liabilities resulting in a benefit to cost of revenues of \$8.3 million in the prior year period. In addition there were lower payments received in the current year period from certain Chinese customers for past shipments for which revenue is recognized upon cash collection as compared to the six month period ended September 30, 2012. Costs associated with this revenue were recorded in prior periods when the inventory was shipped and therefore such revenue contributes 100% gross margin.

#### Operating Expenses

##### Research and development

A portion of our R&D expenditures related to externally funded development contracts has been classified as cost of revenues (rather than as R&D expenses). Additionally, a portion of R&D expenses was offset by cost-sharing funding. Our R&D expenditures are summarized as follows (in thousands):

|                                                                                                                                                                                                                                  | Three months ended<br>September 30, |          | Six months ended<br>September 30, |           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|----------|-----------------------------------|-----------|
|                                                                                                                                                                                                                                  | 2013                                | 2012     | 2013                              | 2012      |
| R&D expenses per unaudited condensed consolidated statements of operations                                                                                                                                                       | \$ 3,083                            | \$ 3,621 | \$ 6,110                          | \$ 7,532  |
| R&D expenditures reclassified as cost of revenues                                                                                                                                                                                | 3,009                               | 4,280    | 4,935                             | 7,140     |
| R&D expenditures offset by cost-sharing funding                                                                                                                                                                                  | 117                                 | 100      | 199                               | 193       |
| Aggregated R&D expenses                                                                                                                                                                                                          | \$ 6,209                            | \$ 8,001 | \$ 11,244                         | \$ 14,865 |
| R&D expenses (exclusive of amounts classified as cost of revenues and amounts offset by cost-sharing funding) decreased by 15% and 19% to \$3.1 million and \$6.1 million for the three and six months ended September 30, 2013, |                                     |          |                                   |           |

respectively, from \$3.6 million and \$7.5 million for the three and six months ended September 30, 2012, respectively. The decreases in R&D expenses were driven primarily by the realization of savings from cost reduction actions that were implemented in fiscal 2012. The decreases in R&D expenditures reclassified to costs of revenue were a result of decreased activity under license and development contracts for wind turbine designs compared to the prior year periods. Aggregated R&D expenses, which include amounts classified as cost of revenues and amounts offset by cost-sharing funding, decreased 22% and 24% to \$6.2 million and \$11.2 million for the three and six months ended September 30, 2013, respectively, from \$8.0 million and \$14.9 million for the three and six months ended September 30, 2012, respectively.

We present aggregated R&D, which is a non-GAAP measure, because we believe this presentation provides useful information on our aggregate R&D spending and because R&D expenses as reported on the unaudited condensed consolidated statements of income have been, and may in the future be, subject to significant fluctuations solely as a result of changes in the level of externally funded contract development work, resulting in significant changes in the amount of the costs recorded as costs of revenues rather than as R&D expenses, as discussed above.

#### Selling, general, and administrative

SG&A expenses decreased by 26% and 24% to \$8.7 million and \$19.5 million in the three and six months ended September 30, 2013, respectively, from \$11.7 million and \$25.5 million in the three and six months ended September 30, 2012, respectively. The decreases in SG&A expenses were due primarily to the realization of savings from cost reductions actions that were implemented in fiscal 2012 as well as a reduction in legal costs.

#### Amortization of acquisition related intangibles

We recorded amortization expense related to our core technology and know-how, trade names and trademark intangible assets of \$0.1 million and \$0.2 million in the three and six month periods ended September 30, 2013, respectively, compared to \$0.1 million and \$0.2 million in the three and six month periods ended September 30, 2012, respectively.

#### Restructuring

We recorded \$0.8 million of restructuring charges in both the three and six months ended September 30, 2013. We recorded restructuring and impairment charges of \$0.1 million in the six months ended September 30, 2012. These amounts in the three and six months ended September 30, 2013 consist primarily of employee severance and benefit costs related to our reduction in force undertaken in July 2013.

#### Operating loss

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

|                                | Three months ended<br>September 30, |             | Six months ended<br>September 30, |             |
|--------------------------------|-------------------------------------|-------------|-----------------------------------|-------------|
|                                | 2013                                | 2012        | 2013                              | 2012        |
| Operating loss:                |                                     |             |                                   |             |
| Wind                           | \$ (2,449)                          | \$ (6,449)  | \$ (4,274)                        | \$ (5,148)  |
| Grid                           | (5,750)                             | (6,572)     | (10,618)                          | (11,915)    |
| Unallocated corporate expenses | (2,829)                             | (1,949)     | (4,985)                           | (4,035)     |
| Total                          | \$ (11,028)                         | \$ (14,970) | \$ (19,877)                       | \$ (21,098) |

Our Wind segment generated operating losses of \$2.5 million and \$4.3 million in the three and six months ended September 30, 2013, respectively, compared to operating losses of \$6.4 million and \$5.1 million in the three and six months ended September 30, 2012, respectively. The decreases in Wind business unit operating losses were primarily due to higher gross profit in the three and six months ended September 30, 2013, due to the impact of cost reductions and a favorable sales mix as well as lower operating expenses as a result of cost reduction efforts during fiscal 2012 and 2013, partially offset by the settlement of certain adverse purchase order liabilities in the prior year.

The operating losses of our Grid segment decreased to \$5.8 million and \$10.6 million in the three and six months ended September 30, 2013, respectively, compared to \$6.6 million and \$11.9 million in the three and six months ended September 30, 2012, respectively. The decreases in the Grid business unit operating losses were primarily due to lower operating expenses in the three and six months ended September 30, 2013, as a result of the reductions in force and reduced discretionary spending, and for the six months ended September 30, 2013, partially offset by lower D-VAR revenue.

Unallocated corporate expenses primarily include stock-based compensation expense of \$2.2 million and \$4.3 million for the three and six months ended September 30, 2013, respectively, and \$2.0 million and \$4.0 million for the three and six months ended September 30, 2012, respectively. In addition, \$0.7 million was included in unallocated corporate expenses for restructuring charges in the current year periods primarily as a result of a reduction in force taken during the second quarter ended September 30, 2013.

#### Change in fair value of derivatives and warrants

The change in fair value of derivatives and warrants resulted in gains of \$0.9 million and \$1.4 million in the three and six months ended September 30, 2013, respectively, compared to gains of \$3.3 million and \$0.9 million for the three and six months ended September 30, 2012, respectively. The changes were primarily driven by a lower stock price during the three and six months ended September 30, 2013, compared to a higher stock price during the same periods in fiscal 2012, which is a key valuation variable, as well as a reduction in the principal outstanding on the convertible note due to payments to the note holder in shares of common stock.

#### Interest expense, net

Interest expense, net, was \$3.5 million and \$5.6 million in the three and six months ended September 30, 2013, respectively, compared to \$2.9 million and \$5.6 million in the three and six months ended September 30, 2012, respectively. The increases in interest expense were due primarily to additional non-cash interest expense of \$1.8 million and \$0.2 million in the three months ended September 30, 2013 and 2012, resulting from the discount available to CVI on stock used to settle principal and interest on the convertible note. The higher non-cash interest expense was partially offset by lower cash interest expense and debt discount amortization due to lower debt balances in the current fiscal year.

#### Other expense, net

Other expense, net, was \$0.6 million in both the three and six months ended September 30, 2013, compared to \$1.3 million and \$1.1 million in the three and six months ended September 30, 2012, respectively. The decreases in other expense, net, were driven primarily by lower minority interest recorded from our investment in Blade Dynamics, as we no longer meet the criteria to account for our investment under the equity method.

#### Income Taxes

In the three and six months ended September 30, 2013, we recorded an income tax expense of \$0.3 million and \$0.4 million, respectively, compared to income tax expense of \$0.1 million and a benefit of \$0.8 million in the three and six months ended September 30, 2012, respectively. The increases in income tax expense were primarily due to increased income taxes in foreign jurisdictions as well as withholding taxes for repatriation of funds from certain foreign jurisdictions. The income benefit for the six months ended September 30, 2012 was due to a refund of Chinese income taxes.

#### Non-GAAP Measures

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



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

|                                                  | Three months ended<br>September 30, |             | Six months ended<br>September 30, |             |
|--------------------------------------------------|-------------------------------------|-------------|-----------------------------------|-------------|
|                                                  | 2013                                | 2012        | 2013                              | 2012        |
| Net loss                                         | \$ (14,623)                         | \$ (15,949) | \$ (25,135)                       | \$ (26,224) |
| Adverse purchase commitment recoveries, net      |                                     | (1,009)     |                                   | (8,309)     |
| Stock-based compensation                         | 2,152                               | 2,044       | 4,287                             | 4,039       |
| Amortization of acquisition-related intangibles  | 82                                  | 80          | 164                               | 161         |
| Restructuring and impairment charges             | 751                                 | 16          | 764                               | 143         |
| Sinovel litigation                               | (5)                                 | 304         | (7)                               | 424         |
| Consumption of zero cost-basis inventory         | (1,319)                             | (401)       | (2,493)                           | (788)       |
| Change in fair value of derivatives and warrants | (886)                               | (3,285)     | (1,355)                           | (897)       |
| Non-cash interest expense                        | 3,093                               | 2,161       | 4,765                             | 4,443       |
| Non-GAAP net loss                                | \$ (10,755)                         | \$ (16,039) | \$ (19,010)                       | \$ (27,008) |
| Non-GAAP loss per share                          | \$ (0.18)                           | \$ (0.31)   | \$ (0.32)                         | \$ (0.52)   |
| Weighted average shares outstanding              | 61,116                              | 51,907      | 59,712                            | 51,551      |

We incurred a non-GAAP net loss of \$10.8 million and \$19.0 million or \$0.18 and \$0.32 per share, for the three and six months ended September 30, 2013, respectively, compared to a non-GAAP net loss of \$16.0 million and \$27.0 million, or \$0.31 and \$0.52 per share, for the three and six months ended September 30, 2012, respectively. The decreases in the non-GAAP net loss were driven primarily by lower net losses as a result of cost saving reductions undertaken in fiscal 2012 and 2013, partially offset by a decrease in adverse purchase commitment recovery from the prior year and higher gains resulting from the change in fair value of derivative and warrants.

#### Liquidity and Capital Resources

At September 30, 2013, we had cash, cash equivalents, and restricted cash of \$32.8 million, compared to \$50.2 million at March 31, 2013, a decrease of \$17.4 million. Our cash and cash equivalents, and restricted cash are summarized as follows (in thousands):

|                           | September 30,<br>2013 | March 31,<br>2013 |
|---------------------------|-----------------------|-------------------|
| Cash and cash equivalents | \$ 25,867             | \$ 39,243         |
| Restricted cash           | 6,922                 | 10,956            |

|                                                                         |    |        |    |        |
|-------------------------------------------------------------------------|----|--------|----|--------|
| Total cash, cash equivalents, marketable securities and restricted cash | \$ | 32,789 | \$ | 50,199 |
|-------------------------------------------------------------------------|----|--------|----|--------|

With respect to the unaudited condensed consolidated statement of cash flows, for the six months ended September 30, 2013, net cash used in operating activities was \$14.8 million compared to \$25.0 million for the six months ended September 30, 2012. The decrease in net cash used in operations is due primarily to a lower net loss, net of non-cash adjustments, as well as less cash used for changes in operating asset and liability accounts.

For the six months ended September 30, 2013, net cash provided by investing activities was \$3.4 million, compared to net cash used in investing activities of \$4.9 million for the six months ended September 30, 2012. The increase in net cash provided by investing activities for the six months ended September 30, 2013 was driven primarily by the net reduction in restricted cash.

For the six months ended September 30, 2013, net cash used in financing activities was \$2.3 million compared to \$33.0 million cash provided by financing activities in the six months ended September 30, 2012. The decrease in net cash provided by financing activities is primarily due to the repayment of debt of \$2.3 million during the period ended September 30, 2013 and the net proceeds from our financings during the period ended September 30, 2012 of \$32.9 million.

At September 30, 2013, we had \$2.0 million of restricted cash included in current assets, and \$4.9 million of restricted cash included in long-term assets. These amounts included in restricted cash primarily represent deposits to secure letters of credit for various supply contracts. These deposits are held in interest bearing accounts.

We have experienced recurring operating losses and as of September 30, 2013, had an accumulated deficit of \$825.3 million. In addition, we have experienced recurring negative operating cash flows, which have resulted in a decrease in our cash balance. These factors raise substantial doubt regarding our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from this outcome of this uncertainty. At September 30, 2013 we had cash and cash equivalents of \$25.9 million. Cash used in operations for the six months ended September 30, 2013, was \$14.8 million.

On April 4, 2012, we entered into a Securities Purchase Agreement with Capital Ventures International ( CVI ), an affiliate of Heights Capital Management (the Purchase Agreement ) and completed a private placement of a \$25.0 million 7% senior convertible note (the Initial Note ). After fees and expenses, the net proceeds were \$23.2 million. The Initial Note had an initial conversion price of \$4.85 per share, representing a premium of approximately 20% over our closing price on April 3, 2012. The Initial Note was payable in monthly installments beginning four months from issuance and ending on October 4, 2014. Monthly payments were payable in cash or shares of our common stock at our option, subject to certain trading volume, stock price and other conditions. CVI could also elect to defer receipt of monthly installment payments at its option. Any deferred installment payments would continue to accrue interest. We registered 10,262,311 shares of our common stock which may be used as payment for principal and interest in lieu of cash for resale under the Securities Act as required under a Registration Rights Agreement with CVI.

On December 20, 2012, we entered into an Amendment and Exchange Agreement, (the First Amendment ) with CVI, which amended the Purchase Agreement. Pursuant to the First Amendment, the Company and CVI exchanged the Initial Note for a new unsecured, senior convertible note, (the Exchanged Note ). At the time of the exchange, the Exchanged Note had the same principal amount and accrued interest as the Initial Note. The Exchanged Note is convertible into our common stock and has the same scheduled monthly installment payments as the Initial Note. The Exchanged Note provides us with additional flexibility to make monthly installment payments in shares of our common stock. We retain the ability to repay the Exchanged Note in cash. Specifically, the amendments to the Exchanged Note:

Allowed us to convert, subject to the satisfaction of certain conditions set forth in the Exchanged Note, (a) at least \$2.5 million of the approximately \$5.3 million installment amount payable with respect to the January 2013 installment date (including approximately \$4.2 million of deferred installment amounts from the period September 4, 2012 to December 3, 2012) into shares of the Company's common stock (on December 21, 2012 we converted \$3.8 million in deferred installment amount principal and interest and issued 1,715,443 shares of common stock), and (b) the balance of the January 2013 installment amount in equal amounts on each of the February and March 2013 installment dates;

Reduced the price failure equity condition with respect to a particular date of determination from \$2.50 to \$1.00;

Reduced the aggregate daily dollar trading volume equity condition required for at least 25 of the 30 consecutive trading days immediately preceding a date of determination from \$1,500,000 to \$850,000 per trading day. In addition, if the aggregate daily dollar trading volume is between \$50,000 and \$850,000, the Company may still convert into common stock a portion of an installment amount payable with respect to an installment date equal to the quotient of (x) the aggregate daily dollar trading volume, divided by (y) \$850,000;

Increased CVI s beneficial ownership limitation under the Exchanged Note from 4.99% to 9.99%; and

Reduced the conversion price, from \$4.85 per share of our common stock to \$3.19 per share of our common stock, subject to certain price-based and other anti-dilution adjustments.

On October 9, 2013, we entered into a Second Amendment and Warrant Exchange Agreement (the "Second Amendment") with CVI. The Second Amendment further amended the Securities Purchase Agreement, as amended by the First Amendment and Exchange Agreement dated December 20, 2012 (collectively, the "Amended Purchase Agreement"), that we previously entered into with the Purchaser.

Pursuant to the Second Amendment, we and/or CVI (i) waived certain provisions of the Amended Purchase Agreement, and (ii) amended certain provisions of the Exchanged Note, specifically,

- CVI waived its rights under the Amended Purchase Agreement to participate in (i) specific types of offerings that may be conducted by the Company with respect to our currently effective Registration Statement on Form S-3 (Registration No. 333-191153), and (ii) the issuance of shares of common stock in connection with any settlement of currently outstanding litigation involving us;

- we and CVI amended the Exchanged Note:

- to increase the period during which CVI is allowed to accelerate payment in shares of common stock at the then current installment date conversion price from such installment date until the trading day before the next installment notice due date to the entire period from such installment date until the trading day before the next installment date; and

- to increase the aggregate outstanding principal amount under the definition of "permitted senior indebtedness" from \$10 million to \$15 million.

On June 5, 2012, we entered into a Term Loan with Hercules Technology Growth Capital, Inc. ("Hercules"), under which we borrowed \$10.0 million. After the closing fees and expenses, the net proceeds were \$9.7 million. The Term Loan bears an interest rate equal to 11% plus the percentage, if any, in which the prime rate as reported by The Wall Street Journal exceeds 3.75%. We made interest only payments from July 1, 2012 through October 31, 2012, after which we began paying the Term Loan in equal monthly installments ending on December 1, 2014. The Term Loan is 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 Loan contains 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 guaranties or grant liens on its assets, make certain loans, advances or investments, declare dividends or make distributions or enter into transactions with affiliates. In addition, the Term Loan contains a covenant which requires us to maintain a minimum unrestricted cash balance in the United States of at least \$10.0 million at the inception of the Term Loan, which decreased starting November 1, 2012 and monthly thereafter by the amount of principal paid. The events of default under the Term Loan 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, the lender may, among other remedies, declare due all unpaid principal amounts outstanding and any accrued but unpaid interest and foreclose on all collateral granted to the lender as security under the Term Loan.

We believe we are in and expect to remain in compliance with the covenants and restrictions under the Exchanged Note and the Term Loan as of the date of this Quarterly Report on Form 10-Q. If we fail to stay in compliance with our covenants or experience some other event of default, we may be forced to repay the outstanding principal of one or both of our debt obligations. In the case of the Exchanged Note, such an event of default would also include the requirement to pay a penalty as defined in the agreement. Should this occur, our liquidity would be adversely affected.

In order for us to continue operations beyond the next twelve months and be able to discharge our liabilities and commitments in the normal course of business, we need to increase sales through executing our strategy to broaden our customer base, enter new markets, and commercialize our superconductor product line. In addition, we may need to further reduce operating expenses in line with business conditions in order to decrease the amount of cash used in operations. We must also seek new financing arrangements, including, but not limited to, new debt and/or equity financing, and continue to work with the holder of our convertible note in order to maintain the ability to make monthly amortization payments on the convertible note in shares of common stock. In addition, we are actively seeking to sell our minority investments in Tres Amigas and Blade Dynamics and have recently engaged a financial advisor to assist with that effort. There can be no assurance that we will be able to raise additional capital or sell one or both of these investments on commercially reasonable terms or at all.

We must successfully execute on our plans to improve operating performance discussed above and raise additional capital through financings or aother means to ensure that we have sufficient cash to fund our operations, capital expenditures and scheduled cash payments under our debt obligations through September 30, 2014. Our ability to pay required monthly installment payments under the Exchanged Note in equity instead of cash is based on certain stock price and trading volume conditions that are outside of our control. If one or both of these equity conditions are not met (absent a waiver from the lender), we may be required to make required monthly installment payments in cash. As of the date of this Quarterly Report on Form 10-Q, we have only made payments to the lender in shares of common stock and as a result the principal balance has been reduced by \$14.6 million to \$10.4 million through September 30, 2013. If we fail one or both of the equity conditions, we can still make required payments in stock if the lender agrees to waive our compliance with the relevant equity conditions, which it has done in the past. There is no assurance that the lender will provide any waivers in the future. Our liquidity is highly dependent on our ability to profitably grow revenues through both the acquisition of new customers and growth from our existing customers, manage our operating expenses, maintain compliance with the covenants and restrictions on our debt obligations (or obtain waivers from our lenders in the event of non-compliance), and raise additional capital through new financing arrangements or the sale of our minority investments in Tres Amigas and Blade Dynamics. There can be no assurance that we will be able to raise additional capital or sell one or both of these investments on commercially reasonable terms or at all.

#### 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. If the loss is not probable or cannot be reasonably estimated, a liability is not recorded in its consolidated financial statements.

#### Off-Balance Sheet Arrangements

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

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

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

#### Recent Accounting Pronouncements

In January 2013, the FASB issued Accounting Standards Update No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities (ASU 2013-01). The main objective in developing this update is to address implementation issues about the scope of Accounting Standards Update No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The update requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. ASU 2013-01 is effective for our first quarter of fiscal 2013. We adopted ASU 2013-01 and it did not have a material impact on our consolidated results of operations, financial condition, or cash flow.



In February 2013, the FASB issued Accounting Standards Update No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02). The amendments of this ASU require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income ( AOCI ) by component. In addition, an entity is required to present, either on the face of the statement where net income (loss) is presented or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 is effective for fiscal years and interim periods beginning after December 15, 2012. We adopted ASU 2013-02 and it did not have a material impact on our consolidated results of operations, financial condition, or cash flows.

In March 2013, the FASB issued Accounting Standards Update No. 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (ASU 2013-05). The objective of the amendments in this update is to resolve the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-30, Foreign Currency Matters Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. In addition, the amendments in this update resolve the diversity in practice for the treatment of business combinations achieved in involving a foreign entity. ASU 2013-05 is effective for fiscal years and interim periods beginning after December 15, 2013. We are currently evaluating the impact of ASU 2013-05, but currently do not believe there will be a significant impact on our consolidated results of operations, financial condition, or cash flows.

In June 2013, the FASB issued ASU 2013-07, Liquidation Basis of Accounting, to require entities to begin preparing financial statements on a liquidation basis when liquidation is imminent. The guidance requires liquidation accounting when liquidation is imminent, unless an entity is outside the scope of the guidance or it is following a liquidation plan established at its inception. The guidance says liquidation is imminent when either, the party or parties with the authority to approve a liquidation plan do so or other forces (e.g., involuntary bankruptcy) impose a plan for liquidation, and the likelihood that the entity will return from liquidation is remote. The guidance also requires entities using the liquidation basis of accounting to measure their assets at the amount they expect to collect upon sale and liabilities are not remeasured to reflect any anticipation that the entity will be legally released from the obligation. ASU 2013-07 is effective for annual periods beginning after December 15, 2013. We are currently evaluating the impact of adopting ASU 2013-07, but currently do not believe there will be an impact on our consolidated results of operations, financial condition, or cash flows.

In September 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The guidance states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We are currently evaluating the impact of adopting ASU 2013-11, but currently do not believe there will be an impact

on our consolidated results of operations, financial condition, or cash flow

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

### ITEM 3. 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, which we do not believe is material to our financial condition or results of operations. Our investments in marketable securities consist primarily of government-backed securities and commercial paper and are designed, in order of priority, to preserve principal, provide liquidity, and maximize income. Investments are monitored to limit exposure to mortgage-backed securities and similar instruments responsible for the recent turmoil in the credit markets. Interest rates are variable and fluctuate with current market conditions. We do not believe that a 10% change in interest rates would have a material impact on our financial position or results of operations.

#### Foreign currency exchange risk

The functional currency of each of our foreign subsidiaries is the U.S. dollar, except for AMSC Austria, for which the local currency (Euro) is the functional currency, and AMSC China, for which the local currency (Renminbi) is the functional currency. The assets and liabilities of AMSC Austria and AMSC China are translated into U.S. dollars at the exchange rate in effect at the balance sheet date and income and expense items are translated at average rates for the period. Cumulative translation adjustments are excluded from net 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 transaction impacts included in net loss were a loss of \$0.4 million and a gain of \$0.1 million for the three and six months ended September 30, 2013, respectively, and a loss of \$0.6 million and gain of \$0.3 million for the three and six months ended September 30, 2012, respectively.

#### Stock Price and Dollar Trading Volume Risk

Our ability to pay required monthly installment payments under the Exchanged Note in equity instead of cash is based on certain stock price and trading volume conditions that are outside of our control. In order to make monthly installment payments under the Exchanged Note entirely in stock, the price of our common stock must remain above \$1.00 per share and the average aggregate daily dollar trading volume of our common stock must be above \$850,000. We may still pay a portion of the monthly installment payments under the Exchanged Note in stock, if the aggregate daily dollar trading volume is between \$50,000 and \$850,000, in an amount equal to the quotient of (x) the aggregate daily dollar trading volume, divided by (y) \$850,000. We currently intend to make payments in equity whenever the equity conditions are met. If one or both of these equity conditions are not met (absent a waiver from the lender), we may be required to make required monthly installment payments in cash. As of the date of this Form 10-Q, we have

only made payments to the lender in shares of common stock, in part because the lender has provided waivers of the equity conditions in the past. There is no assurance that the lender will provide any waivers in the future.

#### ITEM 4. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2013. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation of our disclosure controls and procedures as of September 30, 2013, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

##### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

Between April 6, 2011 and May 12, 2011, seven putative securities class action complaints were filed against us and two of our officers in the United States District Court for the District of Massachusetts; one complaint additionally asserted claims against the underwriters who participated in our November 12, 2010 securities offering. On June 7, 2011, the United States District Court for the District of Massachusetts consolidated these actions under the caption *Lenartz v. American Superconductor Corporation, et al.*, Docket No. 1:11-cv-10582-WGY. On August 31, 2011, Lead Plaintiff, the Plumbers and Pipefitters National Pension Fund, filed a consolidated amended complaint against us, our officers and directors, and the underwriters who participated in our November 12, 2010 securities offering, asserting claims under sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), as well as under sections 11, 12(a)(2) and 15 of the Securities Act of 1933 (the "Securities Act"). The complaint alleges that during the relevant class period, we and our officers omitted to state material facts and made materially false and misleading statements relating to, among other things, our projected and recognized revenues and earnings, as well as our relationship with Sinovel Wind Group Co., Ltd. ("Sinovel") that artificially inflated the value of our stock price. The complaint further alleges that our November 12, 2010 securities offering contained untrue statements of material facts and omitted to state material facts required to be stated therein. The plaintiffs seek unspecified damages, rescindment of our November 12, 2010 securities offering, and an award of costs and expenses, including attorney's fees. All defendants moved to dismiss the consolidated amended complaint. On December 16, 2011, the district court issued a summary order declining to dismiss the Securities Act claims against us and our officers, and taking under advisement the motion to dismiss the Exchange Act claims against us and our officers and the motion to dismiss the Securities Act claims made against the underwriters. On July 26, 2012, the district court dismissed the Exchange Act claims against us and our officers and denied the motion to dismiss the Securities Act claims made against the underwriters. On May 17, 2013, the parties informed the district court that they had reached a settlement in principle, and requested a 30-day stay of the proceedings while the specific terms of the settlement continue to be negotiated. Based on our assessment of probable losses on this claim, we have recorded a loss contingency of \$1.8 million as of September 30, 2013.

Between May 4, 2011 and June 17, 2011, four putative shareholder derivative complaints were filed against us (as a nominal defendant) and certain of our directors in the United States District Court for the District of Massachusetts. On July 5, 2011, the District Court consolidated three of these actions, and that matter is now captioned *In re American Superconductor Corporation Derivative Litigation*, Docket No. 1:11-cv-10784-WGY. On June 1, 2011, the plaintiff in the fourth action, *Marlborough Family Revocable Trust v. Yurek, et al.*, moved to voluntarily dismiss its complaint and refiled its complaint in Superior Court for the Commonwealth of Massachusetts, Middlesex County. On September 7, 2011, the *Marlborough* action and another putative shareholder derivative complaint filed in Superior Court for the Commonwealth of Massachusetts were consolidated. That consolidated matter is captioned *In re American Superconductor Corporation Shareholder Derivative Litigation*, Docket No. 11-1961. On January 12, 2012, an additional shareholder derivative complaint was filed in the Court of Chancery for the State of Delaware. That matter is captioned *Krasnoff v. Budhraj, et al.*, Docket No. 7171. The allegations of the derivative complaints mirror the allegations made in the putative class action complaints described above. The plaintiffs purport to assert claims against the director defendants for breach of fiduciary duty, abuse of control, gross mismanagement, unjust enrichment and corporate waste. On October 23, 2013, the parties informed the Massachusetts state court that the derivative plaintiffs, including those in the federal district court and the Delaware Court of Chancery, had reached a settlement in principle, and requested a 90-day stay of the proceedings while the specific terms of the settlement continue to be negotiated. The plaintiffs seek unspecified damages on behalf of us, as well as an award of costs and expenses, including attorney's fees. Based on our assessment that the probable losses on this claim are insignificant, no loss contingency was recorded as of September 30, 2013.



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

On October 8, 2011, Sinovel filed with the Beijing Arbitration Commission an application under the caption (2011) Jing Zhong An Zi No. 0963, for a counterclaim against us for breach of the same contracts under which we filed our original arbitration claim. Sinovel claimed, among other things, that the goods supplied by us do not conform to the standards specified in the contracts and claimed damages in the amount of approximately RMB 370 million (\$58 million). On October 17, 2011, Sinovel filed with the Beijing Arbitration Commission a request for change of counterclaim to increase its damage claim to approximately RMB 1 billion (\$157 million). On December 22, 2011, Sinovel filed with the Beijing Arbitration Commission an additional request for change of counterclaim to increase its damages claim to approximately RMB 1.2 billion (\$190 million). On February 27, 2012, Sinovel filed with the Beijing Arbitration Commission an application under the caption (2012) Jing Zhong An Zi No. 0157, against us for breach of the same contracts under which we filed our original arbitration claim. Sinovel claimed, among other things, that the goods supplied by us do not conform to the standards specified in the contracts and claimed damages in the amount of approximately RMB 105 million (\$17 million). We believe that Sinovel's claims are without merit and we intend to defend these actions vigorously. Since the proceedings in this matter are in relatively early stages, we cannot reasonably estimate possible losses or range of losses at this time.

We also submitted a civil action application to the Beijing No. 1 Intermediate People's Court under the caption (2011) Yi Zhong Min Chu Zi No. 15524, against Sinovel for software copyright infringement on September 13, 2011. The application alleges Sinovel's unauthorized use of portions of our wind turbine control software source code developed for Sinovel's 1.5MW wind turbines and the binary code, or upper layer, of our software for the PM3000 power converters in 1.5MW wind turbines. In July 2011, a former employee of our Austrian subsidiary was arrested in Austria on charges of economic espionage and fraudulent manipulation of data. In September 2011, the former employee pled guilty to the charges, and was imprisoned. As a result of our internal investigation and a criminal investigation conducted by Austrian authorities, we believe that this former employee was contracted by Sinovel through an intermediary while employed by us and improperly obtained and transferred to Sinovel portions of our wind turbine control software source code developed for Sinovel's 1.5MW wind turbines. Moreover, we believe the former employee illegally used source code to develop for Sinovel a software modification to circumvent the encryption and remove technical protection measures on the PM3000 power converters in 1.5MW wind turbines in the field. We are seeking a cease and desist order with respect to the unauthorized copying, installation and use of our software, monetary damages of approximately RMB 38 million (\$6 million) for our economic losses and reimbursement of all costs and reasonable expenses. The Beijing No. 1 Intermediate People's Court accepted the case, which was necessary in order for the case to proceed. In November 2011, Sinovel filed a motion to remove this case from the Beijing No. 1 Intermediate People's Court and to transfer the matter to the Beijing Arbitration Commission. On February 14, 2012, the court denied Sinovel's motion to remove the case. On February 21, 2012, Sinovel filed an appeal of the Beijing No. 1 Intermediate People's Court decision to the Beijing Higher People's Court. On April 25, 2012, the Beijing Higher People's Court issued a final Civil Ruling which supports the Beijing No.1 Intermediate People's Court's civil ruling and rejected Sinovel's appeal. Sinovel filed an appeal of the Beijing Higher People's Court's decision with China's Supreme People's Court. A hearing regarding this appeal was held at the Chinese Supreme

People's Court on October 26, 2012. On November 23, 2012, China's Supreme People's Court issued a Civil Ruling, holding that (1) it will conduct a re-trial of Sinovel's appeal, and (2) the lower court's decision will be stayed pending the re-trial. China's Supreme People's Court conducted a re-trial of Sinovel's appeal on May 29, 2013.

Sinovel filed a new motion on June 18, 2012, to remove this case from the Beijing No. 1 Intermediate People's Court to the court located in Gansu Province. On October 19, 2012, the court disallowed Sinovel's motion due to its late filing.

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

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

Ghodawat Energy Pvt Ltd (Ghodawat), a company registered in India carrying on the business of wind power development, lodged a Request for Arbitration with the Secretariat of the ICC International Court of Arbitration on May 12, 2011 and named AMSC Windtec GmbH (AMSC Austria) as the Respondent. Under the Request for Arbitration, Ghodawat alleges that AMSC Austria breached an agreement dated March 19, 2008 pursuant to which AMSC Austria granted a license to Ghodawat to manufacture, use, sell, market, erect, commission and maintain certain wind turbines using its technical information and wind turbine design (the License Agreement). Under the Request for Arbitration, Ghodawat's claims in this arbitration amount to approximately 18 million (\$24 million). AMSC Austria filed an Answer to Request for Arbitration and Counterclaim (Answer and Counterclaim), in which AMSC Austria denied Ghodawat's claims in their entirety. AMSC Austria has also submitted counterclaims under the License Agreement against Ghodawat in the amount of approximately 6 million (\$9.0 million). Ghodawat has filed a Reply to Answer to Request for Arbitration and Counterclaim in which it denies AMSC Austria's counterclaims. On June 3, 2013, the final oral submissions hearing was conducted and we believe it will take several months for the Tribunal to render a decision. We have recorded a loss contingency based on our assessment of probable losses on this claim; however, this amount of loss contingency that has been recorded is immaterial to our consolidated financial statements.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended March 31, 2013, which could materially affect our business, financial condition or future results. To the best of our knowledge, as of the date of this report there have been no material change in the risk factors described in our Annual Report on Form 10-K.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

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

SIGNATURE

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

AMERICAN SUPERCONDUCTOR CORPORATION

Date: November 12, 2013 By: /s/ David A. Henry  
David A. Henry  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

| Exhibit No. | Description                                                                                                                                                                                                                                                         |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.1+        | Series A-2 Warrant, dated as of October 9, 2013, between the Registrant and Capital Ventures International.                                                                                                                                                         |
| 10.1+       | Executive Incentive Plan for fiscal year ending March 31, 2014.                                                                                                                                                                                                     |
| 10.2        | Amended and Restated Executive Severance Agreement dated as of September 20, 2013 by and between the Registrant and James F. Maguire (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on September 25, 2013).        |
| 10.3        | Second Amendment and Warrant Exchange Agreement, dated as of October 9, 2013, by and between the Registrant and Capital Ventures International (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on October 9, 2013). |
| 31.1+       | Chief Executive Officer Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                     |
| 31.2+       | Chief Financial Officer Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                     |
| 32.1++      | Chief Executive Officer Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                          |
| 32.2++      | Chief Financial Officer Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                          |
| 101.INS     | XBRL Instance Document.**                                                                                                                                                                                                                                           |
| 101.SCH     | XBRL Taxonomy Extension Schema Document.**                                                                                                                                                                                                                          |
| 101.CAL     | XBRL Taxonomy Calculation Linkbase Document.**                                                                                                                                                                                                                      |
| 101.DEF     | XBRL Definition Linkbase Document **                                                                                                                                                                                                                                |
| 101.LAB     | XBRL Taxonomy Label Linkbase Document.**                                                                                                                                                                                                                            |
| 101.PRE     | XBRL Taxonomy Presentation Linkbase Document.**                                                                                                                                                                                                                     |

+ filed herewith

++ furnished herewith

\*\*submitted electronically herewith

Attached as Exhibits 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Statements of Income for the three and six months ended September 30, 2013 and 2012, (ii) Condensed Consolidated Balance Sheets as of September 30, 2013 and March 31, 2013, (iii) Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and six months ended September 30, 2013 and 2012, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2013 and 2012, and (v) Notes to Condensed Consolidated Financial Statements.