

AMERICAN SUPERCONDUCTOR CORP /DE/

Form 10-Q

February 11, 2013

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**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: December 31, 2012

.. **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)

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**Delaware**  
(State or other jurisdiction of

**04-2959321**  
(I.R.S. Employer

incorporation or organization)

Identification No.)

**64 Jackson Road, Devens, Massachusetts**  
(Address of principal executive offices)

**01434**  
(Zip Code)

**(978) 842-3000**  
(Registrant's telephone number, including area code)

**N/A**  
(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 ☐ (Do not check if a smaller reporting company) 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**  
Class

**57,540,057**  
Outstanding as of February 6, 2013

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**AMERICAN SUPERCONDUCTOR CORPORATION**

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

|                                                                                         | <b>December 31,<br/>2012</b> | <b>March 31,<br/>2012</b> |
|-----------------------------------------------------------------------------------------|------------------------------|---------------------------|
| <b>ASSETS</b>                                                                           |                              |                           |
| Current assets:                                                                         |                              |                           |
| Cash and cash equivalents                                                               | \$ 42,457                    | \$ 46,279                 |
| Marketable securities                                                                   |                              | 5,304                     |
| Accounts receivable, net                                                                | 12,328                       | 18,999                    |
| Inventory                                                                               | 36,455                       | 29,256                    |
| Prepaid expenses and other current assets                                               | 26,735                       | 31,444                    |
| Restricted cash                                                                         | 9,154                        | 12,086                    |
| Deferred tax assets                                                                     | 203                          | 203                       |
| Total current assets                                                                    | 127,332                      | 143,571                   |
| Property, plant and equipment, net                                                      | 78,010                       | 90,828                    |
| Intangibles, net                                                                        | 2,999                        | 3,772                     |
| Restricted cash                                                                         | 4,820                        | 2,540                     |
| Deferred tax assets                                                                     | 3,129                        | 3,129                     |
| Other assets                                                                            | 9,029                        | 11,216                    |
| Total assets                                                                            | \$ 225,319                   | \$ 255,056                |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                             |                              |                           |
| Current liabilities:                                                                    |                              |                           |
| Accounts payable and accrued expenses                                                   | \$ 30,320                    | \$ 37,582                 |
| Note payable, current portion, net of discount of \$552 as of December 31, 2012         | 4,063                        |                           |
| Current portion of convertible note, net of discount of \$5,448 as of December 31, 2012 | 7,162                        |                           |
| Derivative liability                                                                    | 5,605                        |                           |
| Adverse purchase commitments                                                            | 1,799                        | 25,894                    |
| Deferred revenue                                                                        | 23,794                       | 19,718                    |
| Deferred tax liabilities                                                                | 3,129                        | 3,129                     |
| Total current liabilities                                                               | 75,872                       | 86,323                    |
| Note payable, net of discount of \$174 as of December 31, 2012                          | 4,442                        |                           |
| Convertible note net of discount of \$1,287 as of December 31, 2012                     | 7,047                        |                           |
| Deferred revenue                                                                        | 1,445                        | 1,558                     |
| Deferred tax liabilities                                                                | 203                          | 203                       |
| Other liabilities                                                                       | 1,497                        | 2,093                     |
| Total liabilities                                                                       | 90,506                       | 90,177                    |

**Commitments and contingencies (Note 13)**

Stockholders' equity:

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|                                            |            |            |
|--------------------------------------------|------------|------------|
| Common stock                               | 567        | 520        |
| Additional paid-in capital                 | 913,107    | 896,603    |
| Treasury stock                             | (313)      | (271)      |
| Accumulated other comprehensive income     | 1,812      | 2,027      |
| Accumulated deficit                        | (780,360)  | (734,000)  |
| Total stockholders' equity                 | 134,813    | 164,879    |
| Total liabilities and stockholders' equity | \$ 225,319 | \$ 255,056 |

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

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

|                                                      | <b>Three months ended<br/>December 31,</b> |             | <b>Nine months ended<br/>December 31,</b> |              |
|------------------------------------------------------|--------------------------------------------|-------------|-------------------------------------------|--------------|
|                                                      | <b>2012</b>                                | <b>2011</b> | <b>2012</b>                               | <b>2011</b>  |
| Revenues                                             | \$ 17,417                                  | \$ 18,058   | \$ 67,000                                 | \$ 47,916    |
| Cost and operating expenses:                         |                                            |             |                                           |              |
| Cost of revenues                                     | 16,533                                     | 18,918      | 53,843                                    | 57,810       |
| Research and development                             | 3,948                                      | 5,928       | 11,480                                    | 21,339       |
| Selling, general and administrative                  | 10,769                                     | 15,402      | 36,304                                    | 54,952       |
| Restructuring and impairments                        | 6,702                                      | 4,092       | 6,845                                     | 8,393        |
| Write-off of advance payment                         |                                            |             |                                           | 20,551       |
| Amortization of acquisition related intangibles      | 81                                         | 287         | 242                                       | 891          |
| Total cost and operating expenses                    | 38,033                                     | 44,627      | 108,714                                   | 163,936      |
| Operating loss                                       | (20,616)                                   | (26,569)    | (41,714)                                  | (116,020)    |
| Change in fair value of derivatives and warrants     | 5,217                                      |             | 6,114                                     |              |
| Interest (expense) income, net                       | (4,553)                                    | (11)        | (10,191)                                  | 232          |
| Other (expense) income, net                          | (109)                                      | 393         | (1,252)                                   | 1,313        |
| Loss before income tax expense                       | (20,061)                                   | (26,187)    | (47,043)                                  | (114,475)    |
| Income tax expense (benefit)                         | 74                                         | 84          | (683)                                     | 1,185        |
| Net loss                                             | \$ (20,135)                                | \$ (26,271) | \$ (46,360)                               | \$ (115,660) |
| Net loss per common share                            |                                            |             |                                           |              |
| Basic                                                | \$ (0.38)                                  | \$ (0.52)   | \$ (0.89)                                 | \$ (2.28)    |
| Diluted                                              | \$ (0.38)                                  | \$ (0.52)   | \$ (0.89)                                 | \$ (2.28)    |
| Weighted average number of common shares outstanding |                                            |             |                                           |              |
| Basic                                                | 52,792                                     | 50,933      | 51,966                                    | 50,789       |
| Diluted                                              | 52,792                                     | 50,933      | 51,966                                    | 50,789       |

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

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**AMERICAN SUPERCONDUCTOR CORPORATION**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

**(In thousands)**

|                                                     | <b>Three months ended<br/>December 31,</b> |             | <b>Nine months ended<br/>December 31,</b> |              |
|-----------------------------------------------------|--------------------------------------------|-------------|-------------------------------------------|--------------|
|                                                     | <b>2012</b>                                | <b>2011</b> | <b>2012</b>                               | <b>2011</b>  |
| Net loss                                            | \$ (20,135)                                | \$ (26,271) | \$ (46,360)                               | \$ (115,660) |
| Other comprehensive (loss) income, net of tax:      |                                            |             |                                           |              |
| Foreign currency translation gains (losses)         | 521                                        | (1,157)     | (206)                                     | (2,264)      |
| Unrealized losses on investments                    | (8)                                        | (17)        | (9)                                       | (28)         |
| Total other comprehensive income (loss), net of tax | 513                                        | (1,174)     | (215)                                     | (2,292)      |
| Comprehensive loss                                  | \$ (19,622)                                | \$ (27,445) | \$ (46,575)                               | \$ (117,952) |

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

**Table of Contents****AMERICAN SUPERCONDUCTOR CORPORATION****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

|                                                                       | <b>Nine months ended<br/>December 31,</b> |              |
|-----------------------------------------------------------------------|-------------------------------------------|--------------|
|                                                                       | <b>2012</b>                               | <b>2011</b>  |
| Cash flows from operating activities:                                 |                                           |              |
| Net loss                                                              | \$ (46,360)                               | \$ (115,660) |
| Adjustments to reconcile net (loss) to net cash (used in) operations: |                                           |              |
| Depreciation and amortization                                         | 10,143                                    | 10,875       |
| Stock-based compensation expense                                      | 5,968                                     | 7,697        |
| Write-off of advanced payment to The Switch                           |                                           | 20,551       |
| Restructuring charges, net of payments                                | 261                                       | 2,721        |
| Impairment of long-lived and intangible assets                        | 4,507                                     | 2,829        |
| Provision for excess and obsolete inventory                           | 957                                       | 2,150        |
| Adverse purchase commitment losses (recoveries), net                  | (8,428)                                   | 73           |
| Loss on minority interest investments                                 | 1,914                                     | 1,614        |
| Change in fair value of derivatives and warrants                      | (6,114)                                   |              |
| Non-cash interest expense                                             | 8,404                                     |              |
| Other non-cash items                                                  | 1,790                                     | 613          |
| Changes in operating asset and liability accounts:                    |                                           |              |
| Accounts receivable                                                   | 6,085                                     | (1,262)      |
| Inventory                                                             | (8,173)                                   | (10,419)     |
| Prepaid expenses and other current assets                             | 4,699                                     | 3,244        |
| Accounts payable and accrued expenses                                 | (20,330)                                  | (63,554)     |
| Deferred revenue                                                      | 3,986                                     | 5,254        |
| Net cash used in operating activities                                 | (40,691)                                  | (133,274)    |
| Cash flows from investing activities:                                 |                                           |              |
| Purchase of property, plant and equipment                             | (1,259)                                   | (9,332)      |
| Proceeds from the maturity of marketable securities                   | 5,297                                     | 110,667      |
| Change in restricted cash                                             | 653                                       | (6,036)      |
| Purchase of intangible assets                                         |                                           | (3,893)      |
| Purchase of minority investments                                      |                                           | (1,800)      |
| Advanced payment for planned acquisition                              |                                           | (20,551)     |
| Change in other assets                                                |                                           | (734)        |
| Net cash provided by investing activities                             | 4,691                                     | 68,321       |
| Cash flows from financing activities:                                 |                                           |              |
| Employee taxes paid related to net settlement of equity awards        | (42)                                      | (271)        |
| Repayment of debt                                                     | (769)                                     |              |
| Proceeds from the issuance of debt, net of expenses                   | 32,895                                    |              |
| Proceeds from exercise of employee stock options and ESPP             | 178                                       | 150          |
| Net cash provided by (used in) financing activities                   | 32,262                                    | (121)        |
| Effect of exchange rate changes on cash and cash equivalents          | (84)                                      | (104)        |



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|                                                  |         |          |
|--------------------------------------------------|---------|----------|
| Net decrease in cash and cash equivalents        | (3,822) | (65,178) |
| Cash and cash equivalents at beginning of period | 46,279  | 123,783  |

|                                            |           |           |
|--------------------------------------------|-----------|-----------|
| Cash and cash equivalents at end of period | \$ 42,457 | \$ 58,605 |
|--------------------------------------------|-----------|-----------|

## Supplemental schedule of cash flow information:

|                                                |          |           |
|------------------------------------------------|----------|-----------|
| Cash paid for income taxes, net of refunds     | \$ (704) | \$ 13,482 |
| Issuance of common stock to settle liabilities | 10,406   | 586       |
| Cash paid for interest expense                 | 543      |           |

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

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**AMERICAN SUPERCONDUCTOR CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of the Business and Basis of Presentation**

American Superconductor Corporation (the Company or AMSC) 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 highly competitive wind turbines through its advanced power electronics products, engineering and support services. 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 in accordance with the Securities and Exchange Commission's (SEC) instructions to Form 10-Q. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to those instructions. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. The unaudited condensed consolidated financial statements, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim periods ended December 31, 2012 and 2011 and the financial position at December 31, 2012.

At December 31, 2012, the Company had cash and cash equivalents of \$42.5 million. In response to challenging conditions in the wind power market, on November 28, 2012 the Company undertook actions to reduce its global workforce by approximately 25%. In addition, the Company plans to consolidate certain of its office locations. These workforce reductions and planned office consolidations are intended to lower operating costs and enhance liquidity. As of December 31, 2012, the Company had a global workforce of approximately 373 persons.

The Company used \$40.7 million in cash for operations during the nine months ended December 31, 2012, compared to \$133.3 million during the nine months ended December 31, 2011. The Company expects that its cost reduction efforts will result in a substantial reduction in cash used for operations during the year ending March 31, 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 June 5, 2012, the Company entered into a Loan and Security Agreement (the Term Loan), under which the Company borrowed \$10.0 million. 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 11, 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.

The Company believes that its available cash, together with additional reductions in operating costs and capital expenditures that it expects to make, if necessary, will be sufficient to fund its operations, capital expenditures and any scheduled cash payments under its debt obligations through December 31, 2013, on the assumption that the Company continues to be able to make installment payments on the Exchanged Note in shares of common stock. 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, which has been provided in the past) the Company may be required to make monthly installment payments in cash. As of the date of this report, the Company has only made payments to the lender in shares of common stock. Should a scenario arise that the Company is required to make future scheduled installment payments entirely in cash, then there may not be sufficient available cash to fund operations, capital expenditures and scheduled cash payments under its other debt obligations through December 31, 2013. Further, 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, fund and maintain compliance with the covenants and restrictions on its debt obligations, and raise additional capital, as required. Potential sources of additional capital include sales of assets and obtaining additional financing (with the agreement of its lenders if required). With respect to sales of assets or additional financing, there can be no assurance that such sales can be completed on acceptable terms or at all or that any financing will be available on commercially acceptable terms or at all.



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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, 2012 (fiscal 2011) which are contained in the Company's Annual Report on Form 10-K/A.

**2. Stock-Based Compensation**

The Company accounts for its stock-based compensation at fair value. The following table summarizes stock-based compensation expense by financial statement line item for the three and nine months ended December 31, 2012 and 2011 (in thousands):

|                                     | Three months ended<br>December 31, |          | Nine months ended<br>December 31, |          |
|-------------------------------------|------------------------------------|----------|-----------------------------------|----------|
|                                     | 2012                               | 2011     | 2012                              | 2011     |
| Cost of revenues                    | \$ 135                             | \$ 138   | \$ 518                            | \$ 908   |
| Research and development            | 627                                | 623      | 1,781                             | 1,948    |
| Selling, general and administrative | 1,167                              | 1,357    | 3,669                             | 4,841    |
| Total                               | \$ 1,929                           | \$ 2,118 | \$ 5,968                          | \$ 7,697 |

During the nine months ended December 31, 2012, the Company granted approximately 857,000 stock options and awarded 1,758,000 shares of restricted stock shares to employees under the 2007 Stock Incentive Plan. In addition the Company issued 158,000 restricted stock units, each of which represents the right to receive one share of common stock, in connection with a severance agreement entered into with one of our former executive officers, and issued approximately 215,000 immediately vested shares of common stock in-lieu of cash bonuses, to employees under the 2007 Stock Incentive Plan. The Company recorded the issuance of stock in-lieu of cash bonuses as a non-cash issuance of stock to settle liabilities in the unaudited consolidated condensed statement of cash flows. The options granted vest upon the passage of time, generally 3 years. For awards that vest upon the passage of time, expense is being recorded over the vesting 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 \$4.6 million as of December 31, 2012. This expense will be recognized over a weighted average expense period of approximately 1.9 years. The total unrecognized compensation cost for unvested outstanding restricted stock was \$5.5 million as of December 31, 2012. This expense will be recognized over a weighted average expense period of approximately 1.5 years.

The weighted-average assumptions used in the Black-Scholes valuation model for stock options granted during the three and nine months ended December 31, 2012 and 2011 are as follows:

|                         | Three months ended<br>December 31, |       | Nine months ended<br>December 31, |       |
|-------------------------|------------------------------------|-------|-----------------------------------|-------|
|                         | 2012                               | 2011  | 2012                              | 2011  |
| Expected volatility     | 72.4%                              | 79.7% | 72.0%                             | 69.7% |
| Risk-free interest rate | 1.0%                               | 1.1%  | 0.9%                              | 1.8%  |
| Expected life (years)   | 5.9                                | 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.

**Table of Contents****3. Computation of Net (Loss) Income per Common Share**

Basic net (loss) income per share ( EPS ) is computed by dividing net (loss) income by the weighted-average number of common shares outstanding for the period. Where applicable, diluted EPS is computed by dividing the net (loss) income 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, shares issuable on conversion of debt and contingently issuable shares. For both the three and nine months ended December 31, 2012, 11.8 million shares were not included in the calculation of diluted EPS as they were considered anti-dilutive, of which 2.9 million shares relate to outstanding stock options, 3.2 million shares relate to the issuance of warrants, and 5.7 million shares relate to the convertible feature of the Company's Exchanged Note. For both the three and nine months ended December 31, 2011, 2.4 million shares of common stock underlying outstanding stock options were not included in the calculation of diluted EPS as they were considered anti-dilutive.

The following table reconciles the numerators and denominators of the earnings per share calculation for the three and nine months ended December 31, 2012 and 2011 (in thousands, except per share data):

|                                                     | Three months ended<br>December 31, |             | Nine months ended<br>December 31, |              |
|-----------------------------------------------------|------------------------------------|-------------|-----------------------------------|--------------|
|                                                     | 2012                               | 2011        | 2012                              | 2011         |
| <b>Numerator:</b>                                   |                                    |             |                                   |              |
| Net loss                                            | \$ (20,135)                        | \$ (26,271) | \$ (46,360)                       | \$ (115,660) |
| <b>Denominator:</b>                                 |                                    |             |                                   |              |
| Weighted-average shares of common stock outstanding | 53,745                             | 51,459      | 52,558                            | 51,120       |
| Weighted-average shares subject to repurchase       | (953)                              | (526)       | (592)                             | (331)        |
| Shares used in per-share calculation basic          | 52,792                             | 50,933      | 51,966                            | 50,789       |
| Shares used in per-share calculation diluted        | 52,792                             | 50,933      | 51,966                            | 50,789       |
| Net loss per share basic                            | \$ (0.38)                          | \$ (0.52)   | \$ (0.89)                         | \$ (2.28)    |
| Net loss per share diluted                          | \$ (0.38)                          | \$ (0.52)   | \$ (0.89)                         | \$ (2.28)    |

**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 December 31, 2012.

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

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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.

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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.

The following table provides the assets carried at fair value, measured as of December 31, 2012 and March 31, 2012 (in thousands):

|                           | <b>Total<br/>Carrying<br/>Value</b> | <b>Quoted Prices in<br/>Active<br/>Markets<br/>(Level 1)</b> | <b>Significant Other<br/>Observable Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable Inputs<br/>(Level 3)</b> |
|---------------------------|-------------------------------------|--------------------------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------|
| <b>December 31, 2012:</b> |                                     |                                                              |                                                              |                                                          |
| Assets:                   |                                     |                                                              |                                                              |                                                          |
| Cash equivalents          | \$ 23,639                           | \$ 23,639                                                    | \$                                                           | \$                                                       |
| Liabilities:              |                                     |                                                              |                                                              |                                                          |
| Derivative liability      | \$ 1,024                            | \$                                                           | \$                                                           | \$ 1,024                                                 |
| Warrants                  | 4,581                               |                                                              |                                                              | 4,581                                                    |

|                             | <b>Total<br/>Carrying<br/>Value</b> | <b>Quoted Prices in<br/>Active<br/>Markets<br/>(Level 1)</b> | <b>Significant Other<br/>Observable Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable Inputs<br/>(Level 3)</b> |
|-----------------------------|-------------------------------------|--------------------------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------|
| <b>March 31, 2012:</b>      |                                     |                                                              |                                                              |                                                          |
| Assets:                     |                                     |                                                              |                                                              |                                                          |
| Cash equivalents            | \$ 23,485                           | \$ 23,485                                                    | \$                                                           | \$                                                       |
| Short-term commercial paper | 5,304                               |                                                              | 5,304                                                        |                                                          |

The table below reflects the activity for the Company's major classes of liabilities measured at fair value for the period ended December 31, 2012 (in thousands):

|                                                                | <b>Derivative<br/>Liability</b> | <b>Warrants</b> |
|----------------------------------------------------------------|---------------------------------|-----------------|
| <b>April 1, 2012</b>                                           | \$                              | \$              |
| Valuation of original derivative liability                     | 3,779                           |                 |
| Warrant issuance with Senior Convertible Note                  |                                 | 7,018           |
| Warrant issuance with Senior Secured Term Loan                 |                                 | 380             |
| Valuation of derivative liability attributable to modification | 542                             |                 |
| Mark to market adjustment                                      | (3,297)                         | (2,817)         |
| <b>Balance at December 31, 2012</b>                            | <b>\$ 1,024</b>                 | <b>\$ 4,581</b> |

**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.

*Marketable Securities*

Marketable securities consist primarily of government-backed securities and commercial paper and are measured using such inputs as quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset (for example, interest rates and yield curves observable at commonly quoted intervals), and inputs that are derived principally from or corroborated by

observable market data by correlation or other means, and are classified within Level 2 of the



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valuation hierarchy. The Company's marketable securities generally have maturities of greater than three months from original purchase date but less than twelve months from the date of the balance sheet. The Company determines the appropriate classification of its marketable securities at the time of purchase and re-evaluates such classification as of each balance sheet date. All marketable securities are considered available-for-sale and are carried at fair value. The Company periodically reviews the realizability of each short-term and long-term marketable security when impairment indicators exist with respect to the security. If an other-than-temporary impairment of value of the security exists, the carrying value of the security is written down to its estimated fair value.

*Derivative Liability*

The Company has identified all of the derivatives ( Derivative Liability ) associated with the Exchanged Note which include holder change of control redemption rights, issuer optional redemption rights, sale redemption rights and a feature to convert the Exchanged Note into equity at the holder's option. 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 11, 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 11, 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 various assumptions to determine the fair value of warrants. The Company has appropriately valued the warrants within Level 3 of the valuation hierarchy. See Note 12, Warrants and Derivative Liabilities, for a discussion of the warrants and the valuation assumptions used.

**5. Accounts Receivable**

Accounts receivable at December 31, 2012 and March 31, 2012 consisted of the following (in thousands):

|                                       | <b>December 31,<br/>2012</b> | <b>March 31,<br/>2012</b> |
|---------------------------------------|------------------------------|---------------------------|
| Accounts receivable (billed)          | \$ 11,424                    | \$ 16,240                 |
| Accounts receivable (unbilled)        | 914                          | 2,811                     |
| Less: Allowance for doubtful accounts | (10)                         | (52)                      |
| Accounts receivable, net              | \$ 12,328                    | \$ 18,999                 |

**6. Inventory**

The components of inventory at December 31, 2012 and March 31, 2012 are as follows (in thousands):

|                        | <b>December 31,<br/>2012</b> | <b>March 31,<br/>2012</b> |
|------------------------|------------------------------|---------------------------|
| Raw materials          | \$ 10,750                    | \$ 9,962                  |
| Work-in-process        | 3,576                        | 2,390                     |
| Finished goods         | 19,740                       | 14,438                    |
| Deferred program costs | 2,389                        | 2,466                     |
| Net inventory          | \$ 36,455                    | \$ 29,256                 |

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For the three and nine months ended December 31, 2012, the Company recorded an inventory write-down of approximately \$0.5 million and \$1.0 million, respectively, based on evaluating its ending inventory on hand for excess quantities and obsolescence.

Deferred program costs as of December 31, 2012 and March 31, 2012 primarily represent costs incurred on D-VAR turnkey projects and programs accounted for under contract accounting where the Company needs to complete development programs before revenue and costs will be recognized, respectively.

**Table of Contents****7. Prepaid and Other Current Assets**

Prepaid and other current assets consisted of the following (in thousands):

|                             | December 31,<br>2012 | March 31,<br>2012 |
|-----------------------------|----------------------|-------------------|
| Non-Trade receivables       | \$ 495               | 3,922             |
| Prepaid expenses            | 2,809                | 4,707             |
| Prepaid VAT and other taxes | 18,613               | 18,273            |
| Notes receivable            | 4,765                | 4,526             |
| Other current assets        | 53                   | 16                |
| Total                       | \$ 26,735            | \$ 31,444         |

**8. Accounts Payable and Accrued Expenses**

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

|                                     | December 31,<br>2012 | March 31,<br>2012 |
|-------------------------------------|----------------------|-------------------|
| Accounts payable                    | \$ 7,207             | \$ 8,191          |
| Accrued inventories in-transit      | 2,712                | 3,330             |
| Accrued miscellaneous expenses      | 8,494                | 9,595             |
| Accrued outside services            | 1,649                | 113               |
| Accrued subcontractor program costs | 1,924                | 1,885             |
| Accrued compensation                | 4,208                | 8,380             |
| Income taxes payable                | 108                  | 192               |
| Accrued warranty                    | 4,018                | 5,896             |
| Total                               | \$ 30,320            | \$ 37,582         |

**Product Warranty**

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>December 31, |          | Nine months ended<br>December 31, |          |
|-----------------------------------------------------|------------------------------------|----------|-----------------------------------|----------|
|                                                     | 2012                               | 2011     | 2012                              | 2011     |
| Balance at beginning of period                      | \$ 4,792                           | \$ 7,055 | \$ 5,896                          | \$ 7,907 |
| Change in accruals for warranties during the period | (627)                              | (300)    | (1,178)                           | (774)    |
| Settlements during the period                       | (147)                              | (482)    | (700)                             | (860)    |
| Balance at end of period                            | \$ 4,018                           | \$ 6,273 | \$ 4,018                          | \$ 6,273 |



**Table of Contents****9. Income Taxes**

For the three and nine months ended December 31, 2012, the Company recorded income tax expense of \$0.1 million and an income tax benefit of \$0.7 million, respectively. For the three and nine months ended December 31, 2011, the Company recorded income tax expense of \$0.1 million and \$1.2 million, respectively. The income tax expense for the three months ended December 31, 2012, was primarily due to income taxes in foreign jurisdictions. The income tax benefit for the nine months ended December 31, 2012 was primarily due to a refund of income taxes paid in China. The Company has provided a valuation allowance against all existing and newly created deferred tax assets as of December 31, 2012, as it is more likely than not that its deferred tax assets are not currently realizable due to the net operating losses incurred by the Company since its inception.

**10. Restructuring and Impairments***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 year ended March 31, 2012, the Company initiated restructuring activities 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. These activities resulted in the reduction of its global workforce by approximately 50%. During the nine months ended December 31, 2012, the Company initiated further restructuring activities to lower operating costs and enhance liquidity. On November 28, 2012, the Company undertook an action to reduce its global workforce by approximately 25%. As a result, for the three and nine months ended December 31, 2012, the Company incurred restructuring costs of \$2.2 million and \$2.3 million, respectively. During the three months ended, December 31, 2012, \$1.1 million of these additional charges were paid and the remaining balance of accrued restructuring is expected to be paid through December 2013.

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

|                                                    | Severance pay<br>and benefits | Facility<br>exit costs | Total    |
|----------------------------------------------------|-------------------------------|------------------------|----------|
| <b>Three months ended December 31, 2012</b>        |                               |                        |          |
| Accrued restructuring balance at October 1, 2012   | \$ 302                        |                        | \$ 302   |
| Charges to operations                              | 2,194                         |                        | 2,194    |
| Cash payments                                      | (1,112)                       |                        | (1,112)  |
| Accrued restructuring balance at December 31, 2012 | \$ 1,384                      | \$                     | \$ 1,384 |
| <b>Nine months ended December 31, 2012</b>         |                               |                        |          |
| Accrued restructuring balance at April 1, 2012     | \$ 680                        | \$ 294                 | \$ 974   |
| Charges to operations                              | 2,377                         | (39)                   | 2,338    |
| Cash payments                                      | (1,673)                       | (255)                  | (1,928)  |
| Accrued restructuring balance at December 31, 2012 | \$ 1,384                      | \$                     | \$ 1,384 |

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 sheet.

*Impairments*

The Company periodically evaluates its long-lived assets consisting principally of fixed assets and amortizable intangible assets for potential impairment. In accordance with the applicable accounting guidance for the treatment of long-lived assets, the Company reviews the carrying value of its long-lived assets or asset group that is held and used, including intangible assets subject to amortization, for impairment whenever events and circumstances indicate that the carrying value of the assets may not be recoverable. Under the held and used approach, the asset or asset group to be tested for impairment should represent the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. The Company evaluates its long-lived assets whenever events or circumstances suggest that the carrying amount of an asset or group of assets may not be recoverable from the estimated undiscounted future cash flows.

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In November 2012, in response to challenging conditions in the wind power market, the Company undertook certain restructuring activities, to reduce costs. Since the restructuring action impacted all of the Company's operations, the Company concluded that there were indicators of potential impairment of its long-lived assets, and it therefore conducted an assessment of the recoverability of these assets during the three months ended December 31, 2012 by comparing the carrying value of the assets to the pre-tax undiscounted cash flows estimated to be generated by those assets over their remaining useful lives. Based on the calculation performed by management, the sum of the undiscounted cash flows forecasted to be generated by certain assets within its Grid segment and its Wind segment were less than the carrying value of those assets. In addition, the excess undiscounted cash flows generated by all of its reporting units were insufficient to cover the carrying value of its Corporate assets. Therefore, there was an indication that its Corporate reporting unit, Wind segment and certain of its Grid segment assets were impaired and, as a result, the Company performed additional analysis. An evaluation of the level of impairment was made by comparing the implied fair value of those definite long-lived tangible and intangible assets of its Corporate reporting unit, Wind segment and Grid segment against their carrying values.

The fair values of the impacted property and equipment were based on what the Company could reasonably expect to sell each asset from the perspective of a market participant. The determination of the fair value of its property and equipment includes estimates and judgments regarding the marketability and ultimate sales price of individual assets. The Company utilized market data and approximations from comparable analyses to arrive at the estimated fair values of the impacted property and equipment. The fair values of amortization intangible assets related to completed technology and trade names were determined using primarily the relief-from-royalty method over the estimated economic lives of those assets from the perspective of a market participant. During the three months ended December 31, 2012, the Company determined that certain of its Corporate assets and Grid segment property, plant and equipment were impaired as their carrying values exceeded their fair values. The Company determined the long-lived assets of its Wind segment were not impaired. Accordingly, the Company recorded an aggregate impairment charge of \$4.5 million for the three months ended December 31, 2012.

**11. Debt*****Senior Convertible Notes***

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 \$25.0 million aggregate principal amount of a 7% unsecured 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 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 12, 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 12, Warrants and Derivative Liabilities , for additional information regarding the warrant.

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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 nine months ended December 31, 2012, 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 "Amendment") with CVI, which amended the Purchase Agreement. Pursuant to the 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 Notes. 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:

Allow 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;

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

Reduce 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;

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

Reduce 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 nine months ended December 31, 2012, the Company recorded non-cash interest expense for amortization of the debt discount related to the convertible notes of \$2.2 million and \$6.4 million, respectively.

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"). On December 20, 2012 the Company paid approximately \$3.8 million in principal and interest by issuing 1,715,443 shares of the Company's common stock. 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 the three and nine months ended December 31, 2012, the Company recorded \$1.5 million of non-cash interest expense related to installment payments made by issuing the Company's common stock at a discount.





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The Exchanged Note and Purchase Agreement contains 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.

In addition, on October 4, 2012, the Company had the right to issue an additional \$15 million aggregate principal amount of convertible notes and warrant to the same investor, subject to certain conditions. Because the Company did not meet these conditions, it no longer has the right to compel the investor to purchase additional convertible notes on the terms contained 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 repays the 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 12, "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 this as of the nine months ended December 31, 2012 and recorded a corresponding amount into the debt discount. In addition, the Company incurred \$0.3 million of legal and origination costs in the nine months ended December 31, 2012, 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 nine months ended December 31, 2012, the Company recorded non-cash interest expense for amortization of the debt discount related to the Term Loan of \$0.2 million and \$0.5 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 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 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, 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.

Although the Company believes 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, and expects to remain in compliance there can be no assurance that the Company will continue to be in compliance.

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Interest expense on the convertible notes and Term Loan for the three and nine months ended December 31, 2012 was \$4.6 million and \$10.3 million respectively, which included \$3.9 million and \$8.4 million 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 Notes in Company common stock at a discount, respectively.

**12. Warrants and Derivative Liabilities**

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 and exchanged the Initial Note for the Exchanged Note, as described in Note 11. The Initial Note included a warrant to purchase 3.1 million 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 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:

|                                | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 | April 4,<br>2012 |
|--------------------------------|----------------------|-----------------------|------------------|------------------|
| Risk-free interest rate        | 0.75%                | 0.63%                 | 0.77%            | 1.19%            |
| Expected annual dividend yield | 0.0%                 | 0.0%                  | 0.0%             | 0.0%             |
| Expected volatility            | 80.6%                | 80.9%                 | 80.8%            | 80.0%            |
| Term (years)                   | 4.76                 | 5.01                  | 5.28             | 5.5              |
| Fair Value                     | \$ 4.4 million       | \$ 7.1 million        | \$ 8.6 million   | \$ 7.0 million   |

The Company recorded a gain for the change in the fair value of the CVI warrant of \$2.7 million and \$2.6 million to change in fair value of derivatives and warrants in the three and nine months ended December 31, 2012, respectively.

The Company determined certain embedded derivatives issued with the convertible notes 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 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 11, Debt). The Company calculated the fair value of the derivative liabilities 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. Following is a summary of the key assumptions used to value the convertible notes derivative feature:

|                             | December 31,<br>2012 | Post-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 |
|-----------------------------|----------------------|-------------------------------------------|------------------------------------------|-----------------------|------------------|------------------|
| Stock Price                 | \$ 2.62              | \$ 2.95                                   | \$ 2.95                                  | \$ 4.15               | \$ 4.68          | \$ 3.97          |
| Percentage Volume Condition |                      |                                           |                                          |                       |                  |                  |
| Met                         | 94.5%                | 94.9%                                     | 28.6%                                    | 51.0%                 | 75.2%            | 85.9%            |
| Expected Volatility         | 73.5%                | 72.5%                                     | 72.5%                                    | 70.0%                 | 71.0%            | 75.0%            |
| Risk Free Rate              | 0.23%                | 0.25%                                     | 0.25%                                    | 0.23%                 | 0.33%            | 0.44%            |
| Bond Yield                  | 16.5%                | 16.5%                                     | 16.5%                                    | 15.0%                 | 16.0%            | 15.0%            |

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|                          |                |                |                |                |                |                |
|--------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Recovery Rate            | 30.0%          | 30.0%          | 30.0%          | 30.0%          | 30.0%          | 30.0%          |
| Redeemable               | yes            | yes            | yes            | yes            | yes            | yes            |
| Total Time (years)       | 1.76           | 1.79           | 1.79           | 2.01           | 2.28           | 2.5            |
| Dilution Effect          | yes            | yes            | yes            | yes            | yes            | yes            |
| Indicated Percent of Par | 98.0%          | 119.0%         | 99.0%          | 108.0%         | 121.0%         | 117.0%         |
| Fair Value               | \$ 1.0 million | \$ 1.5 million | \$ 0.9 million | \$ 2.8 million | \$ 4.5 million | \$ 3.8 million |

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Based on historical volume-weighted average price, ( 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 a gain from the change in the fair value of the derivative liabilities of \$2.3 million and \$3.3 million to changes in fair value of derivatives and warrants in the three and nine months ended December 31, 2012, respectively.

On June 5, 2012, the Company entered into a Loan and Security Agreement with Hercules (see Note 11, 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:

|                                | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 | June 5,<br>2012 |
|--------------------------------|----------------------|-----------------------|------------------|-----------------|
| Risk-free interest rate        | 0.75%                | 0.64%                 | 0.80%            | 0.77%           |
| Expected annual dividend yield | 0.0%                 | 0.0%                  | 0.0%             | 0.0%            |
| Expected volatility            | 80.14%               | 81.18%                | 80.32%           | 79.90%          |
| Term (years)                   | 4.93                 | 5.18                  | 5.44             | 5.5             |
| Fair Value                     | \$ 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 gain from the change in the fair value of the Hercules warrant of \$0.2 million during the three and nine months ended December 31, 2012.

**13. 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 December 31, 2012, the Company recorded a liability for adverse purchase commitments of \$1.8 million. During the three and nine months ended December 31, 2012, the Company reduced its accrual for adverse purchase commitments by \$10.3 million and \$24.1 million, respectively due to settlements with and payments to certain vendors.

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On May 16, 2012, the Company entered into an agreement with one of its vendors to settle certain of its adverse purchase commitments. The agreement was amended on November 6, 2012 (as amended, the Settlement Agreement). In conjunction with the Settlement Agreement, the Company agreed to pay the vendor approximately 2.2 million (the Settlement Amount). Under the Settlement Agreement, the Company had the option, at its sole discretion, to pay the settlement amount in cash, shares of the Company's common stock, or a combination of cash and common stock. Accordingly, during the three months ended December 31, 2012, the Company issued 765,301 shares of common stock to the vendor and filed a registration statement on Form S-3 to register the vendor's resale of such shares of common stock. If the net proceeds from the vendor's resale of the shares of common stock during a specified period plus any other cash payments made by the Company subsequent to the date of the Settlement Agreement were less than the Settlement Amount, the Company agreed to make an additional payment equal to the shortfall in cash to the vendor no later than December 31, 2012. As of December 31, 2012 the Company made a payment of \$0.8 million as a result of such a shortfall. As security for the Company's obligations under the Settlement Agreement, the Company provided the vendor with a letter of credit in the amount of approximately 2.2 million with an expiration of December 31, 2012. The letter of credit is secured with cash collateral of approximately \$3.0 million and is included in the Company's restricted cash balance as of December 31, 2012. As of December 31, 2012, the Company had not been formally released from the letter of credit. The Company received that release in January 2013.

During the fourth quarter of the year ended March 31, 2012, several vendors notified the Company that they had suffered losses as a result of procuring safety stock in anticipation of receiving future purchase orders or contracts from the Company. Subsequently three vendors filed lawsuits through the Chinese legal system seeking payment for inventories held to be delivered under purchase orders and safety stock. One of these lawsuits has been settled and dismissed. The Company has accrued outstanding adverse purchase commitments based on legally binding contracts and purchase orders that were placed with its vendors for parts with no future demand. The vendor claims for safety stock were not supported by valid purchase orders or valid executed contracts and are not considered part of the adverse purchase commitment liability. The claims for safety stock have not been accrued as of December 31, 2012. The Company has determined that, although it believes that there is no legally enforceable contract for safety stock and will continue to defend its legal position that it does not owe amounts for safety stock, it is reasonably possible that a case may be made against the Company under certain situations. As the loss is reasonably possible but not probable, the Company has not accounted for the loss. The Company has determined that the range for this potential loss is between \$0 and \$2 million.

## ***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 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, the Company and its officers omitted to state material facts and made materially false and misleading statements relating to, among other things, its

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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.

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. The plaintiffs seek unspecified damages on behalf of the Company, as well as an award of costs and expenses, including attorney's fees.

With respect to the above referenced litigation matters, an estimate of loss or range of loss cannot be made. There are numerous factors that make it difficult to meaningfully estimate possible loss or range of loss at this stage of these litigation matters, including that: the proceedings are in relatively early stages, there are significant factual and legal issues to be resolved, information obtained or rulings made during the lawsuits could affect the methodology for calculation of rescission and the related statutory interest rate. In addition, with respect to claims where damages are the requested relief, no amount of loss or damages has been specified. Therefore, the Company is unable at this time to estimate possible losses. The Company believes that these litigations are without merit, and it intends to defend these actions vigorously. Therefore no adjustment has been made to the financial statements to reflect the outcome of these uncertainties.

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) Jin 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

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*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 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, the 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.

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



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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. The Supreme Court accepted the appeal on May 23, 2012. The case is captioned, (2012) Min Shen Zi No. 630. On December 20, 2012, the 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.

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. The arbitration proceedings are currently ongoing. The Company has recorded a loss contingency based on its assessment of probable losses on this claim; however this amount 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.

At December 31, 2012, the Company had \$9.2 million of restricted cash included in current assets, and \$4.8 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, including those deemed as adverse purchase commitments, and are held in interest bearing accounts. The Company is working with its inventory suppliers to delay cash settlements and to reduce the gross liability associated with its adverse purchase commitments, which is approximately \$1.8 million as of December 31, 2012. During the three and nine months ended December 31, 2012, the Company agreed to settle adverse purchase commitments with certain of its vendors. In conjunction with certain of these settlements, the Company agreed to provide letters of credit and bank guarantees in the amount of approximately \$9.0 million with expirations through January 31, 2013. The letters of credit and bank guarantees were secured with cash collateral of approximately \$8.5 million and were included in the Company's restricted cash balance as of December 31, 2012. As of January 2013, these letters of credit had been cancelled and the cash collateral has been returned to unrestricted cash.

**14. Equity 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 December 31, 2012, the Company holds a 28% ownership interest in Tres Amigas.

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



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The net investment activity for the nine months ended December 31, 2012 is as follows (in thousands):

|                                 |          |
|---------------------------------|----------|
| Balance at April 1, 2012        | \$ 3,859 |
| Minority interest in net losses | (689)    |
| Balance at December 31, 2012    | \$ 3,170 |

***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. During the three months ended December 31, 2012, an additional investor invested in Blade Dynamics and as of December 31, 2012, the Company now holds a 19% ownership interest in Blade Dynamics. As a result of the Company's investment being reduced to less than 20%, and that the Company believes it no longer has the ability to significantly influence the operations of Blade Dynamics, the Company has therefore changed its accounting for this investment from the equity method to the cost method as of December 1, 2012.

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 income, net, on the unaudited condensed consolidated statements of operations.

The net investment activity for the nine months ended December 31, 2012 is as follows (in thousands):

|                                  |          |
|----------------------------------|----------|
| Balance at April 1, 2012         | \$ 6,083 |
| Minority interest in net losses  | (1,227)  |
| Net foreign exchange rate impact | (101)    |
| Balance at December 31, 2012     | \$ 4,755 |

**15. 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 exceptional power output, reliability and affordability. The Company supplies advanced power electronics and control systems, licenses its highly engineered wind turbine designs, and provides extensive customer support services to wind turbine manufacturers. Its design portfolio includes a broad range of drive trains and power ratings up to 10 megawatts. 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 exceptional 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                      Nine months ended

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|                  | December 31, |           | December 31, |           |
|------------------|--------------|-----------|--------------|-----------|
|                  | 2012         | 2011      | 2012         | 2011      |
| <b>Revenues:</b> |              |           |              |           |
| Wind             | \$ 6,808     | \$ 10,125 | \$ 35,321    | \$ 27,836 |
| Grid             | 10,609       | 7,933     | 31,679       | 20,080    |
| Total            | \$ 17,417    | \$ 18,058 | \$ 67,000    | \$ 47,916 |

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|                                 | Three months ended<br>December 31, |                    | Nine months ended<br>December 31, |                     |
|---------------------------------|------------------------------------|--------------------|-----------------------------------|---------------------|
|                                 | 2012                               | 2011               | 2012                              | 2011                |
| <b>Operating (loss) income:</b> |                                    |                    |                                   |                     |
| Wind                            | \$ (5,365)                         | \$ (14,014)        | \$ (10,514)                       | \$ (54,719)         |
| Grid                            | (6,705)                            | (6,313)            | (18,620)                          | (24,511)            |
| Unallocated corporate expenses  | (8,546)                            | (6,242)            | (12,580)                          | (36,790)            |
| <b>Total</b>                    | <b>\$ (20,616)</b>                 | <b>\$ (26,569)</b> | <b>\$ (41,714)</b>                | <b>\$ (116,020)</b> |

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) income. 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 \$1.9 million and \$6.0 million, respectively and restructuring and impairment charges of \$6.7 million and \$6.8 million, respectively, for the three and nine months ended December 31, 2012. For the three and nine months ended December 31, 2011, unallocated corporate expenses primarily consist of restructuring and impairment charges of \$4.1 million and \$8.4 million, respectively, and stock-based compensation expense of \$2.1 million and \$7.7 million, respectively. In addition, the nine months ended December 31, 2011 includes expense of \$20.6 million for the write-off of an advanced payment to The Switch.

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

|                  | December 31,<br>2012 | March 31,<br>2012 |
|------------------|----------------------|-------------------|
| Wind             | \$ 69,221            | \$ 70,054         |
| Grid             | 72,714               | 89,091            |
| Corporate assets | 83,384               | 95,911            |
| <b>Total</b>     | <b>\$ 225,319</b>    | <b>\$ 255,056</b> |

The following table sets forth customers who represented 10% or more of the Company's total revenues for the three and nine months ended December 31, 2012 and 2011:

|                                                | Three months ended<br>December 31, |       | Nine months ended<br>December 31, |       |
|------------------------------------------------|------------------------------------|-------|-----------------------------------|-------|
|                                                | 2012                               | 2011  | 2012                              | 2011  |
| CG Power Solutions UK Ltd.                     | 20.8%                              | %     | <10%                              | %     |
| E.ON Climate & Renewables                      | 19.4%                              | %     | <10%                              | %     |
| INOX Wind Limited                              | 18.9%                              | 26.5% | 17.3%                             | 20.5% |
| Beijing JINGCHENG New Energy Co., Ltd.         | <10%                               | <10%  | 16.7%                             | <10%  |
| Doosan Heavy Industries & Construction Co Ltd. | <10%                               | 12.1% | <10%                              | 14.8% |
| Ergon Energy Corporation Limited               | %                                  | 10.6% | %                                 | <10%  |

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### **16. Recent Accounting Pronouncements**

In June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. ASU 2011-05 is effective for fiscal years and interim periods beginning after December 15, 2011. The Company early adopted ASU 2011-05 and it did not have a material impact on the Company's consolidated results of operations, financial condition, or cash flows.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Intangibles - Goodwill and Other (Topic 350)*. ASU 2011-08 allows entities to first assess qualitatively whether it is necessary to perform the two-step goodwill impairment test. If an entity believes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative two-step goodwill impairment test is required. An entity has the unconditional option to bypass the qualitative assessment and proceed directly to performing the first step of the goodwill impairment test. ASU 2011-08 is effective for our first quarter of fiscal 2013 but is eligible for early adoption. The Company does not believe adoption of this standard will have an impact on its consolidated results of operations, financial condition, or cash flows.

In December 2011, the FASB issued Accounting Standards Update No. 2011-11, *Balance Sheet (Topic 210)-Disclosures about Offsetting Assets and Liabilities* (ASU 2011-11). The update requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. ASU 2011-11 is effective for our first quarter of fiscal 2014. The Company is currently evaluating the impact of adopting ASU 2011-11, but currently does not believe there will be a significant impact on its consolidated results of operations, financial condition, or cash flows.

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

### **17. Subsequent Events**

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

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**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: 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; we may require additional funding in the future and may be unable to raise capital when needed; 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; our contracts with the United States government are subject to audit, modification or termination by the United States 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 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; our new 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; we have recorded a liability for adverse purchase commitments with certain of our vendors; should we be required to settle these liabilities in cash, our liquidity could be adversely affected; 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*



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*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; and new regulations related to conflict-free minerals may force us to incur significant additional expenses. These and the important factors discussed under the caption "Risk Factors" in Part II, Item 1A and Part I, Item 1A of our Form 10-K/A for the fiscal year ended March 31, 2012, among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time. Any such forward-looking statements represent management's estimates as of the date of this Quarterly Report on Form 10-Q. While we may elect to update such forward-looking statements at some point in the future, we disclaim any obligation to do so, even if subsequent events cause our views to change. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.*

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

### ***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 up to 10 megawatts. 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.

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Our fiscal year begins on April 1 and ends on March 31. This document refers to fiscal 2012, which is defined as the period beginning on April 1, 2012 and concluding on March 31, 2013. The third quarter of fiscal 2012 began on October 1, 2012 and concluded on December 31, 2012.

On April 4, 2012 we completed a private placement of a \$25.0 million of senior convertible note (the "Initial Note") with Capital Ventures International (CVI), an affiliate of Heights Capital Management. On June 5, 2012, we entered into a \$10.0 million Loan and Security Agreement (Term Loan) with Hercules Technology Growth Capital, Inc. 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. See Liquidity and Capital Resources below for further discussion of these debt arrangements.

In response to challenging conditions in the wind power market, on November 28, 2012 we reduced our global workforce by approximately 25%. 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. We expect these reductions to result in a reduction of our annualized expenses of approximately \$10 million.

Our cash requirements depend on numerous factors, including our ability to profitably grow revenues, fund and maintain compliance with the covenants and restrictions on our debt obligations, successful completion of our product development activities, ability to commercialize our product prototypes, rate of customer and market adoption of our products, and collecting receivables according to established terms. 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. Potential sources of additional capital include the sale of assets, or obtaining additional financing. With respect to additional financing, there can be no assurance that we will be able to sell assets, or that a financing will be available, with commercially acceptable terms or at all. See below for a discussion of liquidity and capital resources.

During March 2011, we engaged in discussions with Sinovel, formerly our largest customer, 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. 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.

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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. See Part II, Item 1, Legal Proceedings below for additional information regarding these 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. Except as stated below, there were no significant changes in the critical accounting policies during the nine months ended December 31, 2012 that were disclosed in our Form 10-K/A for fiscal 2011, which ended on March 31, 2012.

***Fair Value of Financial Instruments***

Our financial instruments consist principally of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, derivatives, warrants, convertible notes and a term loan. The estimated fair values have been determined through information obtained from market sources and management estimates. The carrying amounts of these instruments approximate fair value. We have identified all of the derivatives associated with the Exchanged Note which include holder change of control redemption rights, issuer optional redemption rights, sale redemption rights and a feature to convert the Convertible Note into equity at the holder's option. 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 their exercise or expiration of the derivatives associated with the Exchanged Note. We rely on assumptions in a lattice model to determine the fair value of the derivative liability. We have appropriately valued the derivative liability within Level 3 of the valuation hierarchy. Warrants were issued in conjunction with the Exchanged Note and Term Loan. 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 the warrants' exercise or expiration. We rely on assumptions used in a Black-Scholes model to determine the fair value of the warrants. We have appropriately valued the warrants within Level 3 of the valuation hierarchy.

***Results of Operations******Three and nine months ended December 31, 2012 compared to the three and nine months ended December 31, 2011******Revenues***

Total revenues decreased by 4% to \$17.4 million for the three months ended December 31, 2012, compared to \$18.1 million for the three months ended December 31, 2011. Total revenues increased by 40% to \$67.0 million for the nine months ended December 31, 2012, compared to \$47.9 million for the nine months ended December 31, 2011. Our revenues are summarized as follows (in thousands):

|                  | Three months ended<br>December 31, |           | Nine months ended<br>December 31, |           |
|------------------|------------------------------------|-----------|-----------------------------------|-----------|
|                  | 2012                               | 2011      | 2012                              | 2011      |
| <b>Revenues:</b> |                                    |           |                                   |           |
| Wind             | \$ 6,808                           | \$ 10,125 | \$ 35,321                         | \$ 27,836 |
| Grid             | 10,609                             | 7,933     | 31,679                            | 20,080    |
| Total            | \$ 17,417                          | \$ 18,058 | \$ 67,000                         | \$ 47,916 |

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Our Wind business unit accounted for 39% and 53% of total revenues for the three and nine months ended December 31, 2012, respectively, compared to 56% and 58% for the three and nine months ended December 31, 2011, respectively. Revenues in the Wind business unit decreased 33% and increased 27% to \$6.8 million and \$35.3 million in the three and nine months ended December 31, 2012, respectively, from \$10.1 million and \$27.8 million in the three and nine months ended December 31, 2011, respectively. The decrease in the Wind business unit revenues in the three months ended December 31, 2012, compared to the same prior year period was primarily due to decreased shipments of electrical control systems to customers in India and Korea amid a challenging global market environment in the wind industry. Wind business unit revenues increased in the nine months ended December 31, 2012, as compared to the prior year period primarily due to increased shipments of electrical control systems to customers in China and India.

Our Grid business unit accounted for 61% and 47% of total revenues for the three and nine months ended December 31, 2012, respectively, compared to 44% and 42% for the three and nine months ended December 31, 2011, respectively. Our Grid business unit revenues increased 34% and 58% to \$10.6 million and \$31.7 million in the three and nine months ended December 31, 2012, respectively, from \$7.9 million and \$20.1 million for the three and nine months ended December 31, 2011, respectively. For the three months ended December 31, 2012, Grid business unit revenues increased primarily due to increased D-VAR shipments to customers in the United Kingdom. For the nine months ended December 31, 2012, Grid business unit revenues increased primarily due to increased D-VAR revenues to customers in Australia and the United Kingdom.

Revenues from significant government-funded contracts are summarized as follows (in thousands):

| Project name  | Expected total contract value | Revenue earned through December 31, 2012 | Three months ended December 31, |        | Nine months ended December 31, |          |
|---------------|-------------------------------|------------------------------------------|---------------------------------|--------|--------------------------------|----------|
|               |                               |                                          | 2012                            | 2011   | 2012                           | 2011     |
| HYDRA         | \$ 29,043                     | \$ 13,815                                | \$ 549                          | \$ 511 | \$ 1,658                       | \$ 1,208 |
| LIPA I and II | 40,141                        | 40,141                                   |                                 | 116    | 163                            | 1,500    |
| DOE-FCL       | 7,898                         | 7,536                                    | 25                              | 95     | 286                            | 409      |
| Total         | \$ 77,082                     | \$ 61,492                                | \$ 574                          | \$ 722 | \$ 2,107                       | \$ 3,117 |

These significant projects represented 5% and 7% of the Grid business unit revenues for the three and nine months ended December 31, 2012, respectively, compared to 9% and 16% of the Grid business unit revenues for the three and nine months ended December 31, 2011, respectively.

Project HYDRA is a project with Consolidated Edison, Inc. that 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 FaultBlocker cable systems. FaultBlocker cable systems are 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. Of the total \$29.0 million in funding expected from DHS, it has committed funding of \$18.9 million to us as of December 31, 2012. On January 7, 2013, DHS committed an additional \$1.6 million in funding to us for Project HYDRA. Consolidated Edison and Southwire Company are our subcontractors on this project.

LIPA II is a project to install an HTS power cable using our Amperium® wire for the Long Island Power Authority. DOE-FCL is a project to develop and demonstrate a transmission voltage SuperLimiter fault current limiter ( FCL ).

The following table sets forth customers who represented 10% or more of our total revenues for the three and nine months ended December 31, 2012 and 2011:

|                            | Three months ended December 31, |       | Nine months ended December 31, |       |
|----------------------------|---------------------------------|-------|--------------------------------|-------|
|                            | 2012                            | 2011  | 2012                           | 2011  |
| CG Power Solutions UK Ltd. | 20.8%                           | %     | <10%                           | %     |
| E.ON Climate & Renewables  | 19.4%                           | %     | <10%                           | %     |
| INOX Wind Limited          | 18.9%                           | 26.5% | 17.3%                          | 20.5% |

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|                                                |      |       |       |       |
|------------------------------------------------|------|-------|-------|-------|
| Beijing JINGCHENG New Energy Co., Ltd.         | <10% | <10%  | 16.7% | <10%  |
| Doosan Heavy Industries & Construction Co Ltd. | <10% | 12.1% | <10%  | 14.8% |
| Ergon Energy Corporation Limited               | %    | 10.6% | %     | <10%  |

**Table of Contents*****Cost of Revenues and Gross Margin***

Cost of revenues was \$16.5 million and \$53.8 million for the three and nine months ended December 31, 2012, respectively, compared to \$18.9 million and \$57.8 million for the three and nine months ended December 31, 2011, respectively. Gross margin was 5% and 20% for the three and nine months ended December 31, 2012, respectively, compared to (5%) and (21%) for the three and nine months ended December 31, 2011, respectively. The increases in gross margin for both the three and nine months ended December 31, 2012 as compared to the same periods in fiscal 2011, were primarily due to settlements of certain adverse purchase order liabilities resulting in a benefit to cost of revenues of \$0.1 million and \$8.4 million in the three and nine months ended December 31, 2012, respectively, and \$0.8 million due to the expiration of warranty liabilities, primarily with customers in China, as well as higher revenues, primarily in the nine months ended December 31, 2012, which included approximately \$3.3 million of revenue from Chinese customers representing payment for past shipments for which revenue was recognized upon cash collection. Costs associated with this revenue were recorded in prior periods.

***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):

|                                                                  | <b>Three months ended<br/>December 31,</b> |              | <b>Nine months ended<br/>December 31,</b> |               |
|------------------------------------------------------------------|--------------------------------------------|--------------|-------------------------------------------|---------------|
|                                                                  | <b>2012</b>                                | <b>2011</b>  | <b>2012</b>                               | <b>2011</b>   |
| R&D expenses per condensed consolidated statements of operations | \$ 3,948                                   | \$ 5,928     | \$ 11,480                                 | \$ 21,339     |
| R&D expenditures reclassified as cost of revenues                | 3,044                                      | 2,480        | 10,184                                    | 9,782         |
| R&D expenditures offset by cost-sharing funding                  | 40                                         | 42           | 144                                       | 123           |
| <br>Aggregated R&D expenses                                      | <br>\$ 7,033                               | <br>\$ 8,450 | <br>\$ 21,807                             | <br>\$ 31,244 |

R&D expenses (exclusive of amounts classified as cost of revenues and amounts offset by cost-sharing funding) decreased by 33% and 46% to \$3.9 million and \$11.5 million for the three and nine months ended December 31, 2012, respectively, compared to \$5.9 million and \$21.3 million for the three and nine months ended December 31, 2011, respectively. The decreases in R&D expenses were driven primarily by the realization of savings from actions to reduce personnel and other costs that were implemented in fiscal 2011 as well as partial savings from the action to reduce personnel and other costs undertaken in the third quarter of fiscal 2012. The increases in R&D expenditures reclassified to costs of revenue during the three and nine months ended December 31, 2012 were a result of increased license and development revenue in our Wind segment partially offset by a decrease in activity in our government funded contracts in our Grid business unit compared to the prior year period. Aggregated R&D expenses, which include amounts classified as cost of revenues and amounts offset by cost-sharing funding, decreased 17% and 30% to \$7.0 million and \$21.8 million for the three and nine months ended December 31, 2012, respectively, compared to \$8.5 million and \$31.2 million for the three and nine months ended December 31, 2011, 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 30% and 34% to \$10.8 million and \$36.3 million in the three and nine months ended December 31, 2012, respectively, compared to \$15.4 million and \$55.0 million in the three and nine months ended December 31, 2011, respectively. The decreases in SG&A expenses during the three and nine month periods ended December 31, 2012, as compared to the prior year periods, were due primarily to the realization of savings from our actions to reduce personnel and other costs during fiscal 2011 and partial realization of savings from the action to reduce personnel and other costs undertaken in the three months ended December 31, 2012, and with respect to the nine months ended December 31, 2012, costs associated with the severance of our former chief executive officer that were incurred during the comparable period of the prior year.





**Table of Contents***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 nine months ended December 31, 2012, respectively, compared to \$0.3 million and \$0.9 million in the three and nine months ended December 31, 2011, respectively. These intangible assets are primarily as a result of our Windtec acquisition in 2007.

*Restructuring and Impairments*

We recorded restructuring and impairment charges \$6.7 million and \$6.8 million in the three and nine months ended December 31, 2012, respectively, compared to \$4.1 million and \$8.4 million in the three and nine months ended December 31, 2011. These amounts consist primarily of a long-lived asset impairment charge of \$4.5 million recorded in the three months ended December 31, 2012, as well as employee severance and benefit costs related to the restructuring plan of \$2.2 million and \$2.3 million in the three and nine months ended December 31, 2012, respectively. For the three and nine months ended December 31, 2011, these amounts include employee severance and benefit costs related to the restructuring plan of \$2.2 million and \$5.4 million, respectively, and impairment charges on long-lived assets for which there is no remaining future economic benefit as of December 31, 2011 of \$0.1 million and \$1.1 million, respectively. Finally, for the nine months ended December 31, 2011, the Company recorded facility exit costs of \$0.1 million associated with portions of the leased space in Klagenfurt, Austria.

*Operating (loss) income*

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

|                                 | Three months ended<br>December 31, |                    | Nine months ended<br>December 31, |                     |
|---------------------------------|------------------------------------|--------------------|-----------------------------------|---------------------|
|                                 | 2012                               | 2011               | 2012                              | 2011                |
| <b>Operating (loss) income:</b> |                                    |                    |                                   |                     |
| Wind                            | \$ (5,365)                         | \$ (14,014)        | \$ (10,514)                       | \$ (54,719)         |
| Grid                            | (6,705)                            | (6,313)            | (18,620)                          | (24,511)            |
| Unallocated corporate expenses  | (8,546)                            | (6,242)            | (12,580)                          | (36,790)            |
| <b>Total</b>                    | <b>\$ (20,616)</b>                 | <b>\$ (26,569)</b> | <b>\$ (41,714)</b>                | <b>\$ (116,020)</b> |

Our Wind segment generated operating losses of \$5.4 million and \$10.5 million in the three and nine months ended December 31, 2012, respectively, compared to operating losses of \$14.0 million and \$54.7 million in the three and nine months ended December 31, 2011, respectively. The decreases in Wind business unit operating losses were primarily due to the settlement of certain adverse purchase order liabilities, the expiration of warranty liabilities with certain Chinese customers, and the realization of savings from actions to reduce personnel and other costs that were implemented in fiscal 2011.

Our Grid segment operating losses increased to \$6.7 million in the three months ended December 31, 2012, compared to \$6.3 million in the three months ended December 31, 2011. Our Grid segment operating losses decreased to \$18.6 million in the nine months ended December 31, 2012, from \$24.5 million in the nine months ended December 31, 2011. The increase in Grid business unit operating losses for the three month period was primarily due to higher operating expenses, primarily as a result of higher corporate allocations, partially offset by higher revenues. The decrease in Grid business unit operating losses for the nine month period was primarily due to the realization of savings from actions to reduce personnel and other costs that were implemented in fiscal 2011 and increased revenues from D-VAR shipments to customers in United Kingdom and Australia.

Unallocated corporate expenses for the three and nine months ended December 31, 2012, consist primarily of stock-based compensation expense of \$1.9 million and \$6.0 million, respectively, restructuring and impairment charges of \$6.7 million and \$6.8 million, respectively. Unallocated corporate expenses in both the three and nine months ended December 31, 2011, primarily consisted of restructuring and impairment charges of \$4.1 million and \$8.4 million, respectively, and stock based compensation expense of \$2.1 million and \$7.7 million respectively. For the nine months ended December 31, 2011, unallocated corporate expenses also included the write-off of the advanced payment to The Switch of \$20.6 million.



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

As a result of our completed debt financings during the nine months ended December 31, 2012, we recognized a liability for derivative features embedded within the financing agreements, including the convertible feature of the convertible note and warrants issued in conjunction with the Exchanged Note and Term Loan. We are required to value the derivative liabilities and warrants at fair value each quarter and recognize a gain or loss on the change in fair value of these instruments.

The fair value of the derivative liabilities and warrants decreased by \$5.2 million and \$6.1 million and resulted in a gain to our consolidated statements of operations for the three and nine months ended December 31, 2012, respectively. The primary driver of the gain was the decrease in our stock price during these periods.

### ***Interest (expense) income, net***

Interest expense, net, was \$4.6 million and \$10.2 million in the three and nine months ended December 31, 2012, respectively, compared to interest expense of less than \$0.1 million and interest income of \$0.2 million for the three and nine months ended December 31, 2011, respectively. The increase in interest expense was due to the debt financings completed during the nine months ended December 31, 2012.

### ***Other (expense) income, net***

Other expense, net, was \$0.1 million and \$1.3 million in the three and nine months ended December 31, 2012, respectively, compared to other income of \$0.4 million and \$1.3 million for the three and nine months ended December 31, 2011, respectively. The increase in other expense, net primarily relates to lower foreign currency translation gains.

### ***Income Taxes***

In the three and nine months ended December 31, 2012, we recorded income tax expense of \$0.1 million and an income tax benefit of \$0.7 million, respectively. For the three and nine months ended December 31, 2011, we recorded income tax expense of \$0.1 million and \$1.2 million, respectively. The income tax expense for the three months ended December 31, 2012, and the three and nine months ended December 31, 2011, was primarily due to income taxes in foreign jurisdictions. The income tax benefit for the nine months ended December 31, 2012, is primarily due to a refund of income taxes paid in China. We have provided a valuation allowance against all existing and newly created deferred tax assets as of December 31, 2012, as it is more likely than not that our deferred tax assets are not currently realizable due to the net operating losses we have incurred since our inception.

### ***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) income as net (loss) income 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) income 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) income as a useful measure of operating performance which more closely aligns net (loss) income with cash used in/provided by continuing operations. In addition, we use non-GAAP net (loss) income 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) income is set forth in the table below (in thousands, except per share data):

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|                                                      | Three months ended<br>December 31, |             | Nine months ended<br>December 31, |              |
|------------------------------------------------------|------------------------------------|-------------|-----------------------------------|--------------|
|                                                      | 2012                               | 2011        | 2012                              | 2011         |
| Net loss                                             | \$ (20,135)                        | \$ (26,271) | \$ (46,360)                       | \$ (115,660) |
| Adverse purchase commitment (recoveries) losses, net | (119)                              | (94)        | (8,428)                           | 73           |
| Stock-based compensation                             | 1,929                              | 2,118       | 5,968                             | 7,697        |
| Amortization of acquisition-related intangibles      | 81                                 | 287         | 242                               | 891          |
| Restructuring and impairment charges                 | 6,702                              | 4,092       | 6,845                             | 8,393        |
| Executive severance                                  |                                    |             |                                   | 2,066        |
| Sinovel litigation                                   | (12)                               | 2,423       | 411                               | 5,757        |
| Consumption of zero cost-basis inventory             | (602)                              | (46)        | (1,389)                           | (173)        |
| Change in fair value of derivatives and warrants     | (5,217)                            |             | (6,114)                           |              |
| Non-cash interest expense                            | 3,867                              |             | 8,404                             |              |
| Write-off of advance payment                         |                                    |             |                                   | 20,551       |
| Non-GAAP net loss                                    | \$ (13,506)                        | \$ (17,491) | \$ (40,421)*                      | \$ (70,405)  |
| Non-GAAP loss earnings per share                     | \$ (0.26)                          | \$ (0.34)   | \$ (0.78)                         | \$ (1.39)    |
| Weighted average shares outstanding                  | 52,792                             | 50,933      | 51,966                            | 50,789       |

\* Non-GAAP net loss for the nine months ended December 31, 2012 includes a correction of the Non-GAAP net loss for the first and second quarters of fiscal 2012 relating to the presentation of the effect of the consumption of zero-cost based inventory. Had Non-GAAP net loss been properly reported in those periods, Non-GAAP net loss would have increased by \$0.8 million in each of the first and second quarters of fiscal 2012.

We incurred non-GAAP net losses of \$13.5 million and \$40.4 million or (\$0.26) and (\$0.78) per share, for the three and nine months ended December 31, 2012, respectively, compared to a non-GAAP net losses of \$17.5 million and \$70.4 million, or (\$0.34) and (\$1.39) per share, for the three and nine months ended December 31, 2011, respectively. The decreases in the non-GAAP net losses were driven primarily by the factors that resulted in a lower net loss, including the savings from cost reduction actions undertaken in fiscal 2011 and increased revenues, particularly during the nine months ended December 31, 2012.

**Liquidity and Capital Resources**

At December 31, 2012, we had cash, cash equivalents, marketable securities and restricted cash of \$56.4 million, compared to \$66.2 million at March 31, 2012, a decrease of \$9.8 million. Our cash and cash equivalents, marketable securities and restricted cash are summarized as follows (in thousands):

|                                                                         | December 31,<br>2012 | March 31,<br>2012 |
|-------------------------------------------------------------------------|----------------------|-------------------|
| Cash and cash equivalents                                               | \$ 42,457            | \$ 46,279         |
| Marketable securities                                                   |                      | 5,304             |
| Restricted cash                                                         | 13,974               | 14,626            |
| Total cash, cash equivalents, marketable securities and restricted cash | \$ 56,431            | \$ 66,209         |

With respect to the unaudited condensed consolidated statement of cash flows, for the nine months ended December 31, 2012, net cash used in operating activities was \$40.7 million compared to \$133.3 million for the nine months ended December 31, 2011. The decrease in net cash used in operations is due primarily to the \$69.3 million decrease in net loss and a decrease in cash used for working capital of \$53.0 million, partially offset by a decrease in non-cash items of \$29.7 million primarily relating to the write-off of the advance payment to the Switch of \$20.6 million during the nine months ended December 31, 2011 and during the nine months ended December 31, 2012, non-cash gains from the recoveries of adverse purchase commitments of \$8.4 million and a gain from the change in fair value of derivatives and warrants of \$6.1 million.

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For the nine months ended December 31, 2012, net cash provided by investing activities was \$4.7 million compared to net cash provided by investing activities of \$68.3 million for the nine months ended December 31, 2011. The decrease in net cash provided by investing activities for the nine months ended December 31, 2012 was driven primarily by a decrease in the proceeds from the maturity of marketable securities of \$105.4 million, partially offset by a decrease in capital expenditures of \$8.1 million, the decrease in restricted cash of \$6.7 million, and the \$20.6 million advance payment to The Switch, the \$3.9 million of purchased intangible assets and the additional minority investment in Tres Amigas of \$1.8 million during the nine months ended December 31, 2011, none of which recurred.

For the nine months ended December 31, 2012, net cash provided by financing activities was \$32.3 million compared to cash used in financing activities of \$0.1 million in the nine months ended December 31, 2011. The increase in net cash provided by financing activities is primarily due to the net proceeds from our financings of \$32.9 million during the nine months ended December 31, 2012.

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At December 31, 2012, we had \$9.2 million of restricted cash included in current assets, and \$4.8 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 and are held in interest bearing accounts. We are working with our inventory suppliers to delay cash settlements and to reduce the gross liability associated with our adverse purchase commitments, which is approximately \$1.8 million as of December 31, 2012. In conjunction with certain of these settlements, we agreed to provide letters of credit and bank guarantees in the amount of approximately \$9.0 million with expirations through January 31, 2013. The letters of credit and bank guarantees were secured with cash collateral of \$8.5 million and were included in our restricted cash balance as of December 31, 2012. As of January 2013, these letters of credit had been cancelled and the cash collateral has been returned to unrestricted cash. During the three and nine months ended December 31, 2012, we agreed to settle adverse purchase commitments with certain of our vendors and reduced the gross liability associated with our adverse purchase commitments, which had a direct benefit to our cost of sales of \$0.1 million and \$8.4 million, respectively.

On May 16, 2012, we entered into an agreement with one of our vendors to settle certain of our adverse purchase commitments. The agreement was amended on November 6, 2012 (as amended, the Settlement Agreement). In conjunction with the Settlement Agreement, we agreed to pay the vendor approximately 2.2 million (the Settlement Amount). Under the Settlement Agreement, we had the option, at our sole discretion, to pay the settlement amount in cash, shares of our common stock, or a combination of cash and common stock. Accordingly, during the three months ended December 31, 2012, we issued 765,301 shares of our common stock to the vendor and filed a registration statement on Form S-3 to register the vendor's resale of such shares of common stock. If the net proceeds from the vendor's resale of the shares of common stock during a specified period plus any other cash payments made by us subsequent to the date of the Settlement Agreement were less than the Settlement Amount, we agreed to make an additional payment equal to the shortfall in cash to the vendor no later than December 31, 2012, as of December 31, 2012 we paid \$0.8 million as a result of such a shortfall. As security for our obligations, we have provided the vendor with a letter of credit in the amount of 2.2 million, approximately \$3.0 million, with an expiration of December 31, 2012 and was included in our restricted cash balance as of December 31, 2012. As of December 31, 2012, we had not been formally released from the letter of credit. We received that release in January 2013.

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 \$25.0 million of 7% senior convertible notes (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 Amendment) with CVI, which amended the Purchase Agreement. Pursuant to the 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:

Allow 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;

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

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Reduce 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;

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

Reduce 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 June 5, 2012, we entered into a Term Loan with Hercules Technology Growth Capital, Inc., 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 will decrease 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.

Although we believe we are in and expect to remain in compliance with covenants and restrictions included in the agreements governing these debt arrangements as of the date of this Quarterly Report on Form 10-Q, there can be no assurance that we will continue to be in compliance. If we fail to stay in compliance with our covenants or suffer 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.

At December 31, 2012, we had cash and cash equivalents, of \$42.5 million, all of which was unrestricted. We experienced a substantial decline in revenues, incurred a net loss of \$136.8 million and used \$141.0 million of cash for operations during the fiscal year ended March 31, 2012. As a result, we reduced our global workforce by approximately 50% and consolidated certain business operations in three locations to reduce facility costs. During the third quarter of fiscal 2012, in response to challenging conditions in the wind power market, we undertook an action to again reduce our global workforce by approximately 25%, including a plan to consolidate certain of our office locations. As of December 31, 2012, we had a global workforce of approximately 373 persons.

We used \$40.7 million in cash for operations during the nine months ended December 31, 2012, compared to \$133.3 million during the nine months ended December 31, 2011. We expect that our cost reduction efforts will result in a substantial reduction in cash used for operations during the fiscal year ending March 31, 2013. We plan to closely monitor our expenses and, if required, expect to further reduce operating costs and capital spending to enhance liquidity.

We believe that our available cash, together with additional reductions in operating costs and capital expenditures that we expect to make, if necessary, will be sufficient to fund our operations, capital expenditures and any scheduled cash payments under our debt obligations through December 31, 2013, on the assumption that we continue to be able to make installment payments on the Exchanged Note in shares of common stock. 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, which has been provided in the past) we may be required to make required monthly installment payments in cash. As of the date of this report, we have only made payments to the lender in shares of common stock. Should a scenario arise that we are required to make future scheduled installment payments entirely in cash, then there may not be sufficient available cash to fund operations, capital expenditures and scheduled cash payments under our other debt obligations through December 31, 2013. Further, our liquidity is highly dependent on our ability to profitably grow revenues through





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both the acquisition of new customers and growth from our existing customers, fund and maintain compliance with the covenants and restrictions on our debt obligations, and raise additional capital, as required. Potential sources of additional capital include sales of assets and obtaining additional financing (with the agreement of its lenders if required). With respect to sales of assets or additional financing, there can be no assurance that such sales can be completed on acceptable terms or at all or that financing will be available on commercially acceptable 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 a 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 June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. ASU 2011-05 is effective for fiscal years and interim periods beginning after December 15, 2011. We early adopted ASU 2011-05 and it did not have a material impact on our consolidated results of operations, financial condition, or cash flows.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Intangibles – Goodwill and Other (Topic 350)*. ASU 2011-08 allows entities to first assess qualitatively whether it is necessary to perform the two-step goodwill impairment test. If an entity believes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative two-step goodwill impairment test is required. An entity has the unconditional option to bypass the qualitative assessment and proceed directly to performing the first step of the goodwill impairment test. ASU 2011-08 is effective for our first quarter of fiscal 2013 but is eligible for early adoption. We do not believe adoption of this standard will have an impact on our consolidated results of operations, financial condition, or cash flows.

In December 2011, the FASB issued Accounting Standards Update No. 2011-11, *Balance Sheet (Topic 210)-Disclosures about Offsetting Assets and Liabilities* (ASU 2011-11). The update requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. ASU 2011-11 is effective for our first quarter of fiscal 2014. We are currently evaluating the impact of adopting ASU 2011-11, but currently believe there will be no significant impact on our consolidated results of operations, financial condition, or cash flows.

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

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### **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.

#### ***Interest Rate Risk***

Our exposure to interest rate risk through financial instruments includes our Term Loan that carries a variable interest rate. Our 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%. We do not believe that a 10% change in interest rates would have a material impact on our financial position or results of operations. Our Exchanged Note bears a fixed interest rate of 7%; however upon the occurrence on an event of default pursuant to the Exchanged Note, the interest rate would increase to 15%.

#### ***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.

Foreign currency impacts included in our net loss were a loss of \$0.2 million and a gain of \$0.2 million for the three and nine months ended December 31, 2012, and gains of \$0.7 million and \$2.9 million for the three and nine months ended December 31, 2011, 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 either of these equity conditions are not met (absent a waiver from the lender, which has been provided in the past) we may be required to make required monthly installment payments in cash, which could adversely impact our liquidity. As of the date of this filing, we have only made payments to the lender in shares of common stock.

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**ITEM 4. CONTROLS AND PROCEDURES**

***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2012. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation of our disclosure controls and procedures as of December 31, 2012, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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### **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. 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.

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. The plaintiffs seek unspecified damages on behalf of us, as well as an award of costs and expenses, including attorney's fees.

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. With respect to the above referenced litigation matters, such an estimate cannot be made. There are numerous factors that make it difficult to meaningfully estimate possible loss or range of loss at this stage of these litigation matters, including that: the proceedings are in relatively early stages, there are significant factual and legal issues to be resolved, information obtained or rulings made during the lawsuits could affect the methodology for calculation of rescission and the related statutory interest rate. In addition, with respect to claims where damages are the requested relief, no amount of loss or damages has been specified. Therefore, we are unable at this time to estimate possible losses. We believe that these litigations are without merit, and we intend to defend these actions vigorously. Therefore no adjustment has been made to the financial statements to reflect the outcome of these uncertainties.

On September 13, 2011, we commenced a series of legal actions in China against Sinovel Wind Group Co. Ltd. ("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) Jin 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

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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 our 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, the 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.

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).

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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 the 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. The Supreme Court accepted the appeal on May 23, 2012. The case is captioned, (2012) Min Shen Zi No. 630. On December 20, 2012, the China's Supreme People's Court issued a Civil Ruling, holding that (1) it will conduct a re-trial of our appeal, and (2) the lower court's decision will be stayed pending the re-trial.

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. The arbitration proceedings are currently ongoing. We have recorded a loss contingency based on our assessment of probable losses on this claim; however, this amount 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 updated risk factor set forth below and the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider important factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K/A for the year ended March 31, 2012, 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 has been no material change in the risk factors described in our Annual Report on Form 10-K/A, except for the following:

#### ***New regulations related to conflict-free minerals may force us to incur significant additional expenses.***

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of minerals originating from the conflict zones of the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC established new annual disclosure and reporting requirements for those

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companies who use conflict minerals mined from the DRC and adjoining countries in their products. These new requirements will require due diligence efforts for the 2013 calendar year, with initial disclosure requirements beginning in May 2014. These new requirements could affect the sourcing and availability of minerals used in the manufacture of our products. As a result, we may not be able to obtain materials at competitive prices and there will likely be significant additional costs associated with implementing new due diligence procedures that satisfy the new regulation. In addition, as our supply chain is complex, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins of all minerals used in our products through the due diligence procedures that we implement, and we may incur additional costs as a result of changes to product, processes or sources of supply as a consequence of these new requirements.

**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.

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**SIGNATURE**

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

AMERICAN SUPERCONDUCTOR CORPORATION

Date: February 11, 2013

**By:** **/s/ David A. Henry**  
David A. Henry  
Senior Vice President and Chief Financial Officer  
  
(Principal Financial and Accounting Officer)



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**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>                                                                                                                                                                                                         |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.1                | Exchanged Note dated as of December 20, 2012 between the Registrant and Capital Ventures International                                                                                                                     |
| 10.1               | Amendment and Exchange Agreement, dated as of December 20, 2012, by and between the Registrant and Capital Ventures International (1)                                                                                      |
| 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 Taxonomy Extension Definition Linkbase Document.**                                                                                                                                                                    |
| 101.LAB            | XBRL Taxonomy Label Linkbase Document.**                                                                                                                                                                                   |
| 101.PRE            | XBRL Taxonomy Presentation Linkbase Document.**                                                                                                                                                                            |

(1) Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on December 21, 2012 (Commission file No. 000-19672).

\*\* 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 nine months ended December 31, 2012 and 2011, (ii) Condensed Consolidated Balance Sheets as of December 31, 2012 and March 31, 2012, (iii) Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and nine months ended December 31, 2012 and 2011, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2012 and 2011, and (v) Notes to Condensed Consolidated Financial Statements.