AMERICAN SUPERCONDUCTOR CORP /DE/
Form 10-Q
February 06, 2017

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, 2016
¨ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.
Commission File Number: 0-19672

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

Delaware	04-2959321
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
64 Jackson Road, Devens, Massachusetts	01434
(Address of principal executive offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 x 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 x

Shares outstanding of the Registrant's common stock:

Common Stock, par value $0.01 per share	14,219,985
Class	Outstanding as of February 2, 2017

AMERICAN SUPERCONDUCTOR CORPORATION
INDEX

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

	December 31, 2016	March 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,063	$ 39,330
Accounts receivable, net	15,863	19,264
Inventory	19,442	18,512
Prepaid expenses and other current assets	3,097	5,778
Restricted cash	795	457
Total current assets	64,260	83,341
Property, plant and equipment, net	45,114	49,778
Intangibles, net	436	854
Restricted cash	140	934
Deferred tax assets	115	96
Other assets	176	315
Total assets	$ 110,241	$ 135,318
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 18,354	$ 23,156
Note payable, current portion, net of discount of $47 as of December 31, 2016 and $42 as of March 31, 2016	1,453	2,624
Derivative liabilities	2,560	3,227
Deferred revenue	15,997	12,000
Total current liabilities	38,364	41,007
Note payable, net of discount of $133 as of March 31, 2016	—	1,367
Deferred revenue	7,974	9,269
Deferred tax liabilities	63	63
Other liabilities	47	63
Total liabilities	46,448	51,769
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock	143	141
Additional paid-in capital	1,014,365	1,011,813
Treasury stock	(1,371)	(881)
Accumulated other comprehensive (loss) income	(712)	660
Accumulated deficit	(948,632)	(928,184)
Total stockholders' equity	63,793	83,549
Total liabilities and stockholders' equity	$ 110,241	$ 135,318

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

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

	Three months ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
Revenues	$27,148	$25,772	$59,000	$68,499
Cost of revenues	22,107	19,263	50,992	55,758
Gross profit	5,041	6,509	8,008	12,741
Operating expenses:				
Research and development	2,985	2,759	8,804	8,924
Selling, general and administrative	6,077	7,023	19,640	21,331
Impairment loss	—	—	—	779
Amortization of acquisition related intangibles	39	39	118	118
Total operating expenses	9,101	9,821	28,562	31,152
Operating loss	(4,060)	(3,312)	(20,554)	(18,411)
Change in fair value of derivatives and warrants	101	(1,092)	667	409
Gain on sale of minority interest	325	2,511	325	2,511
Interest expense, net	(89)	(238)	(331)	(841)
Other income (expense), net	873	(20)	481	(1,189)
Loss before income tax expense	(2,850)	(2,151)	(19,412)	(17,521)
Income tax (benefit) expense	(82)	806	1,036	2,256
Net loss	$(2,768)	$(2,957)	$(20,448)	$(19,777)
Net loss per common share				
Basic	$(0.20)	$(0.22)	$(1.49)	$(1.52)
Diluted	$(0.20)	$(0.22)	$(1.49)	$(1.52)
Weighted average number of common shares outstanding				
Basic	13,792	13,539	13,746	13,052
Diluted	13,792	13,539	13,746	13,052

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

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

	Three months ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
Net loss	$(2,768)	$(2,957)	$(20,448)	$(19,777)
Other comprehensive loss, net of tax:				
Foreign currency translation losses	(831)	(436)	(1,372)	(117)
Total other comprehensive loss, net of tax	(831)	(436)	(1,372)	(117)
Comprehensive loss	$(3,599)	$(3,393)	$(21,820)	$(19,894)

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

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

	Nine months ended December 31,	
	2016	2015
Cash flows from operating activities:		
Net loss	$(20,448)	$(19,777)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	5,606	6,050
Stock-based compensation expense	2,266	2,542
Impairment loss	—	746
Provision for excess and obsolete inventory	1,074	1,835
Write-off prepaid taxes	—	289
Gain from sale of minority interest investments	(325)	(2,155)
Change in fair value of derivatives and warrants	(667)	(409)
Non-cash interest expense	127	290
Other non-cash items	(937)	694
Changes in operating asset and liability accounts:		
Accounts receivable	3,213	(7,156)
Inventory	(2,294)	3,288
Prepaid expenses and other current assets	2,283	5,800
Accounts payable and accrued expenses	(4,031)	(34)
Deferred revenue	3,598	198
Net cash used in operating activities	(10,535)	(7,799)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(557)	(788)
Proceeds from the sale of property, plant and equipment	15	30
Change in restricted cash	457	2,832
Proceeds from the sale of minority interest	325	2,511
Change in other assets	117	271
Net cash provided by investing activities	357	4,856
Cash flows from financing activities:		
Employee taxes paid related to net settlement of equity awards	(490)	(110)
Repayment of debt	(3,167)	(3,000)
Proceeds from public equity offering, net	—	22,282
Proceeds from exercise of employee stock options and ESPP	—	30
Net cash (used in)/provided by financing activities	(3,657)	19,202
Effect of exchange rate changes on cash and cash equivalents	(432)	(312)
Net (decrease)/increase in cash and cash equivalents	(14,267)	15,947
Cash and cash equivalents at beginning of year	39,330	20,490
Cash and cash equivalents at end of year	$25,063	$36,437

Supplemental schedule of cash flow information:

Cash paid for income taxes, net of refunds	$920	$1,120
Issuance of common stock to settle liabilities	289	286
Cash paid for interest	238	574

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

AMERICAN SUPERCONDUCTOR CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of the Business and Operations and Liquidity
Nature of the Business and Operations
American Superconductor Corporation (“AMSC” or the “Company”) was founded on April 9, 1987. The Company is a leading provider of megawatt-scale solutions that lower the cost of wind power and enhance the performance of the power grid. In the wind power market, the Company enables manufacturers to field wind turbines through its advanced engineering, support services and power electronics products. In the power grid market, the Company enables electric utilities and renewable energy project developers to connect, transmit and distribute power through its transmission planning services and power electronics and superconductor-based products. The Company’s wind and power grid products and services provide exceptional reliability, security, efficiency and affordability to its customers.
These unaudited condensed consolidated financial statements of the Company have been prepared on a going concern basis in accordance with United States generally accepted accounting principles (“GAAP”) and the Securities and Exchange Commission’s (“SEC”) instructions to Form 10-Q. The going concern basis of presentation assumes that the Company will continue operations and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those instructions. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. The unaudited condensed consolidated financial statements, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim periods ended December 31, 2016 and 2015 and the financial position at December 31, 2016.
Liquidity
The Company has experienced recurring operating losses and as of December 31, 2016, the Company had an accumulated deficit of $948.6 million. In addition, the Company has experienced recurring negative operating cash flows. At December 31, 2016, the Company had cash and cash equivalents of $25.1 million. Cash used in operations for the nine months ended December 31, 2016 was $10.5 million.
From April 1, 2011 through the date of this filing, the Company has reduced its global workforce substantially. The Company has taken actions to consolidate certain business operations to reduce facility costs. As of December 31, 2016, the Company had a global workforce of 366 persons. The Company plans to closely monitor its expenses and, if required, expects to further reduce operating costs and capital spending to enhance liquidity.
Over the last several years, the Company has entered into several debt and equity financing arrangements in order to enhance liquidity. Since April 1, 2012, the Company has generated aggregate cash flows from financing activities of $67.3 million. This amount includes proceeds from an April 2015 equity offering, which generated net proceeds of approximately $22.3 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company. See Note 9, “Debt”, and Note 11 “Stockholders Equity” for further discussion of these financing arrangements. The Company believes that it is in compliance with the covenants and restrictions included in the agreements governing its debt arrangements as of December 31, 2016.

In December 2015, the Company entered into a set of strategic agreements valued at approximately $210.0 million with Inox Wind Ltd. (“Inox”), which includes a multi-year supply contract pursuant to which the Company will supply electric control systems to Inox and a license agreement allowing Inox to manufacture a limited number of electrical control systems over the following three to four years. After this initial three to four year period, Inox agreed that the Company will continue as Inox’s preferred supplier and Inox will be required to purchase from the Company a majority of its electric control systems requirements for an additional three-year period. These agreements are expected to provide a foundation for the business as the Company pursues its longer-term objectives.
On March 11, 2016, the Company sold 100% of its minority share investment in Tres Amigas LLC ("Tres Amigas") to an investor for $0.6 million. The Company received $0.3 million according to the terms of the purchase agreement upon closing, which was recorded as a gain during the three months ended March 31, 2016. The final $0.3 million was

received and recorded as a gain during the third quarter of fiscal 2016. See Note 13, “Minority Investments”, for further information about such investment.

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

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, 2016 and 2015 (in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
Cost of revenues	$40	$55	$139	$213
Research and development	61	89	153	373
Selling, general and administrative	512	564	1,974	1,956
Total	$613	$708	$2,266	$2,542

The Company granted 9,703 stock options and 161,000 restricted stock awards during the nine months ended December 31, 2016, and 420,189 restricted stock awards during the nine months ended December 31, 2015. These awards generally vest over 2-3 years. Awards for restricted stock include both time-based and performance-based awards. For options and awards that vest upon the passage of time, expense is being recorded over the vesting period. Performance-based awards are expensed over the requisite service period based on probability of achievement.

The estimated fair value of the Company's stock-based awards, less expected annual forfeitures, is amortized over the awards' service period. The total unrecognized compensation cost for unvested outstanding stock options was $0.5 million at December 31, 2016. This expense will be recognized over a weighted average expense period of approximately 2.2 years. The total unrecognized compensation cost for unvested outstanding restricted stock was $2.3 million at December 31, 2016. This expense will be recognized over a weighted-average expense period of approximately 1.6 years.

The stock options granted during the nine months ended December 31, 2016 will vest over 2 years. The weighted average assumptions used in the Black Scholes valuation model for stock options granted during the nine months ended December 31, 2016 are as follows:

	Nine months ended December 31,	
	2016	2015
Expected volatility	67.6 %	N/A
Risk-free interest rate	1.3 %	N/A
Expected life (years)	5.7	N/A
Dividend yield	None	N/A

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 U.S. Treasury rates.

3. Computation of Net Loss per Common Share

Basic net loss per share (“EPS”) is computed by dividing net loss by the weighted-average number of common shares outstanding for the period. Where applicable, diluted EPS is computed by dividing the net loss by the weighted-average number of common shares and dilutive common equivalent shares outstanding during the period, calculated using the treasury stock method. Common equivalent shares include the effect of restricted stock, exercise of stock options and warrants and contingently issuable shares. For each of the three and nine months ended December 31, 2016 and 2015, 1.6 million shares were not included in the calculation of diluted EPS as they were considered anti-dilutive, of which 0.4 million relate to outstanding stock options, and 1.2 million relate to outstanding warrants, respectively.

The following table reconciles the numerators and denominators of the earnings per share calculation for the three and nine months ended December 31, 2016 and 2015 (in thousands, except per share data):

	Three months ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
Numerator:				
Net loss	$(2,768)	$(2,957)	$(20,448)	$(19,777)
Denominator:				
Weighted-average shares of common stock outstanding	14,203	14,010	14,175	13,181
Weighted-average shares subject to repurchase	(411)	(471)	(429)	(129)
Shares used in per-share calculation basic	13,792	13,539	13,746	13,052
Shares used in per-share calculation diluted	13,792	13,539	13,746	13,052
Net loss per share basic	$(0.20)	$(0.22)	$(1.49)	$(1.52)
Net loss per share diluted	$(0.20)	$(0.22)	$(1.49)	$(1.52)

4. Fair Value Measurements

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

Level 1 -	Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
Level 2 -	Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).
Level 3 -	Unobservable inputs that reflect the Company’s assumptions that market participants would use in pricing the asset or liability. The Company develops these inputs based on the best information available, including its own data.

The Company provides a gross presentation of activity within Level 3 measurement roll-forward and details of transfers in and out of Level 1 and 2 measurements. A change in the hierarchy of an investment from its current level is reflected in the period during which the pricing methodology of such investment changes. Disclosure of the transfer of securities from Level 1 to Level 2 or Level 3 is made in the event that the related security is significant to total cash and investments. The Company did not have any transfers of assets and liabilities from Level 1 and Level 2 to Level 3 of the fair value measurement hierarchy during the three and nine months ended December 31, 2016.

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 and liabilities carried at fair value on a recurring basis, measured as of December 31, 2016 and March 31, 2016 (in thousands):

	Total Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2016:				
Assets:				

Cash equivalents	$ 14,088	$ 14,088	$ —	$ —
Derivative liabilities:				
Warrants	$ 2,560	$ —	$ —	$ 2,560

9

	Total Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2016:				
Assets:				
Cash equivalents	$ 16,040	$ 16,040	$ —	$ —
Derivative liabilities:				
Warrants	$ 3,227	$ —	$ —	$ 3,227

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

	Warrants
April 1, 2016	$ 3,227
Mark to market adjustment	(667)
Balance at December 31, 2016	$ 2,560

	Warrants
April 1, 2015	$ 2,999
Mark to market adjustment	228
Balance at March 31, 2016	$ 3,227

Valuation Techniques

Cash Equivalents

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

Warrants

Warrants were issued in conjunction with a Securities Purchase Agreement (the "Purchase Agreement") with Capital Ventures International ("CVI") in April 2012, an equity offering to Hudson Bay Capital in November 2014, and a Loan and Security Agreement with Hercules Technology Growth Capital, Inc. ("Hercules") in June 2012 and through subsequent amendments. See Note 9, "Debt," and Note 10 "Warrants and Derivative Liabilities," for additional information. These warrants are subject to revaluation at each balance sheet date, and any change in fair value will be recorded as a change in fair value in derivatives and warrants until the earlier of their exercise or expiration.

The Company relies on various assumptions in a lattice model to determine the fair value of warrants. The Company has valued the warrants within Level 3 of the valuation hierarchy. See Note 10, "Warrants and Derivative Liabilities," for a discussion of the warrants and the valuation assumptions used.

5. Accounts Receivable

Accounts receivable at December 31, 2016 and March 31, 2016 consisted of the following (in thousands):

	December 31, 2016	March 31, 2016
Accounts receivable (billed)	$ 15,329	$ 18,089
Accounts receivable (unbilled)	588	1,229
Less: Allowance for doubtful accounts	(54)	(54)
Accounts receivable, net	$ 15,863	$ 19,264

6. Inventory

Inventory at December 31, 2016 and March 31, 2016 consisted of the following (in thousands):

	December 31, 2016	March 31, 2016
Raw materials	$ 8,433	$ 9,665
Work-in-process	1,278	3,411
Finished goods	5,433	3,215
Deferred program costs	4,298	2,221
Net inventory	$ 19,442	$ 18,512

The Company recorded inventory write-downs of $0.4 million and $1.0 million for each of the three months ended December 31, 2016 and 2015, respectively. The Company recorded inventory write-downs of $1.1 million and $1.8 million for each of the nine months ended December 31, 2016, and 2015, respectively. These write downs were based on evaluating its inventory on hand for excess quantities and obsolescence.

Deferred program costs as of December 31, 2016 and March 31, 2016 primarily represent costs incurred on programs accounted for under contract accounting where the Company needs to complete development milestones before revenue and costs will be recognized.

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at December 31, 2016 and March 31, 2016 consisted of the following (in thousands):

	December 31, 2016	March 31, 2016
Accounts payable	$ 6,593	$ 5,837
Accrued inventories in-transit	1,259	1,908
Accrued other miscellaneous expenses	1,616	3,003
Accrued compensation	5,074	7,526
Income taxes payable	1,135	1,281
Accrued warranty	2,677	3,601
Total	$ 18,354	$ 23,156

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 December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
Balance at beginning of period	$2,694	$3,273	$3,601	$3,934
Change in accruals for warranties during the period	591	595	1,009	1,018
Settlements during the period	(608)	(758)	(1,933)	(1,842)
Balance at end of period	$2,677	$3,110	$2,677	$3,110

8. Income Taxes

The Company recorded an income tax benefit of $0.1 million and income tax expense of $1.0 million in the three and nine months ended December 31, 2016, respectively, and income tax expense of $0.8 million and $2.3 million in the three and nine months ended December 31, 2015, respectively. Income tax (benefit) expense was primarily due to dividend withholding taxes and income taxes in the Company’s foreign jurisdictions.

Accounting for income taxes requires a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if, based on the technical merits, it is more likely than not the position will be sustained upon audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company re-evaluates these uncertain tax positions on a quarterly basis. The evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit and new audit activity. Any changes in these factors could result in the recognition of a tax benefit or an additional charge to the tax provision. The Company did not identify any uncertain tax positions in the nine months ended December 31, 2016 and did not have any gross unrecognized tax benefits as of March 31, 2016.

9. Debt

Senior Secured Term Loans

On November 15, 2013, the Company amended its existing Loan and Security Agreement with Hercules and entered into a new term loan (the “Term Loan B”), borrowing $10.0 million. After closing fees and expenses, the net proceeds to the Company for the Term Loan B were $9.8 million. The Term Loan B bears an interest rate of 11% plus the percentage, if any, by which the prime rate as reported by the Wall Street Journal exceeds 3.75%. The Company repaid the Term Loan B in equal monthly installments ending on November 1, 2016, when the loan was repaid in full. The Company paid an end of term fee of $0.5 million upon the maturity of the Term Loan B, which had been accrued at inception of the loan with a corresponding amount recorded into the debt discount. In addition, the Company incurred $0.2 million of legal and origination costs at inception of the loan, which have been recorded as a debt discount.

On December 19, 2014, the Company entered into a second amendment with Hercules (the “Hercules Second Amendment”) and entered into a new term loan, borrowing an additional $1.5 million (the “Term Loan C”). After closing fees and expenses, the net proceeds to the Company for the Term Loan C were $1.4 million. The Term Loan B and Term Loan C are collectively referred to as the “Term Loans”. The Term Loan C also bears the same interest rate as the Term Loan B. The Company will make interest only payments until maturity on June 1, 2017, when the loan is scheduled to be repaid in its entirety. The maturity date of the Term Loan C was extended from March 1, 2017 to June 1, 2017 due to the Company’s April 2015 equity offering which raised more than $10 million in new capital before December 31, 2015. The Company will pay an end of term fee of approximately $0.1 million upon earlier of maturity or prepayment of the Term Loan C. The Company has accrued the end of term fee and recorded a corresponding amount in the debt discount. The Term Loan C includes the same mandatory prepayment feature as the Term Loan B. The Company determined the fair value to be de-minimus for this feature. In addition, the Company incurred approximately $0.1 million of legal and origination costs at inception of the loan, which have been recorded as a debt discount.

Hercules received warrants to purchase 13,927 shares of common stock (the “First Warrant”) and 25,641 shares of common stock (the “Second Warrant”) in conjunction with a prior term loan which has been repaid in full and the Term Loan B. Due to certain adjustment provisions within the warrants, they qualified for liability accounting. The fair value of the warrants, $0.4 million and $0.2 million, respectively, was recorded upon issuance to debt discount and a warrant liability. In conjunction with the Hercules Second Amendment, the First Warrant and Second Warrant were cancelled and replaced with the issuance of a new warrant (the “Hercules Warrant”) to purchase 58,823 shares of common stock at an exercise price of $11.00 per share, subject to adjustment. The Hercules Warrant expires on June 30, 2020. See Note 10, “Warrants and Derivative Liabilities”, for a discussion on the Hercules Warrant and the valuation assumptions used.

Under Term Loan B, the total debt discount including the Hercules Warrant, end of term fee and legal and origination costs of $1.0 million was amortized into interest expense over the term of the Term Loan B using the effective interest method. During both the three and nine months ended December 31, 2016, the Company recorded non-cash interest expense for amortization of the debt discount related to the Term Loan B of less than $0.1 million. During both the

three and nine months ended December 31, 2015, the Company recorded non-cash interest expense for amortization of the debt discount related to the Term Loan B of $0.2 million Under Term Loan C, the total debt discount, including the Hercules Warrant, end of term fee and legal and origination costs of $0.3 million is being amortized into interest expense over the term of the Term Loan C using the effective interest method. During both the three and nine months ended December 31, 2016 and 2015, the Company recorded non-cash interest expense for amortization of the debt discount related to the Term Loan C of less than $0.1 million.
The Term Loans are secured by substantially all of the Company’s existing and future assets, including a mortgage on real property owned by the Company’s wholly-owned subsidiary, ASC Devens LLC, and located at 64 Jackson Road, Devens, Massachusetts. The Term Loans contain certain covenants that restrict the Company’s ability to, among other things, incur or assume certain debt, merge or consolidate, materially change the nature of the Company’s business, make certain investments,

acquire or dispose of certain assets, make guarantees or grant liens on its assets, make certain loans, advances or investments, declare dividends or make distributions or enter into transactions with affiliates. In addition, there is a covenant that requires the Company to maintain a minimum unrestricted cash balance (the “Minimum Threshold”) in the United States. As a result of the Company’s April 2015 equity offering, the Minimum Threshold was reduced to the lesser of $2.0 million or the aggregate outstanding principal balance of the Term Loans. As of December 31, 2016, the Minimum Threshold was $1.5 million. The events of default under the Term Loans include, but are not limited to, failure to pay amounts due, breaches of covenants, bankruptcy events, cross defaults under other material indebtedness and the occurrence of a material adverse effect and/or change in control. In the case of a continuing event of default, Hercules may, among other remedies, declare due all unpaid principal amounts outstanding and any accrued but unpaid interest and foreclose on all collateral granted to Hercules as security under the Term Loans.

Interest expense on the Term Loans for the three months ended December 31, 2016 and 2015, was $0.1 million and $0.2 million, respectively, each of which included less than $0.1 million of non-cash interest expense related to the amortization of the debt discount on the respective Term Loans. Interest expense on the Term Loans for the nine months ended December 31, 2016 and 2015, was $0.3 million and $0.8 million, respectively, each of which included $0.1 million and $0.3 million, respectively, of non-cash interest expense related to the amortization of the debt discount on the respective Term Loans

Although the Company believes that it is in compliance with the covenants and restrictions under the Term Loans as of December 31, 2016, there can be no assurance that the Company will continue to be in compliance.

10. Warrants and Derivative Liabilities

Senior Convertible Note Warrant

On April 4, 2012, the Company entered into the Purchase Agreement with CVI. The Purchase Agreement included a warrant to purchase 309,406 shares of the Company’s common stock (the “Original Warrant”). Pursuant to an exchange in October 2013, the Original Warrant was exchanged for a new warrant (the “Exchanged Warrant”). The Exchanged Warrant is exercisable at any time on or after the date that is six months after the issuance of the Original Warrant and entitles CVI to purchase shares of the Company’s common stock for a period of five years from the date the Original Warrant becomes exercisable at an exercise price equal to $15.94 per share, subject to certain price-based and other anti-dilution adjustments. The Exchanged Warrant may not be exercised if, after giving effect to the conversion, CVI together with its affiliates, would beneficially own in excess of 4.99% of the Company’s common stock. This percentage may be raised to any other percentage not in excess of 9.99% at the option of CVI, upon at least 61-days prior notice to the Company, or lowered to any other percentage, at the option of CVI, at any time.

The Company calculated the fair value of the Exchanged Warrant, 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. See Note 4, "Fair Value Measurements", for further discussion.

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

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

Fiscal Year 16	December 31, 2016	September 30, 2016	June 30, 2016
Risk-free interest rate	0.56%	0.59%	0.48%
Expected annual dividend yield	—	—	—
Expected volatility	58.04%	70.50%	76.30%
Term (years)	0.76	1.01	1.26
Fair value	$0.1 million	$0.2 million	$0.4 million

Fiscal Year 15	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Risk-free interest rate	0.66%	0.96%	0.64%	0.74%	0.73%
Expected annual dividend yield	—	—	—	—	—
Expected volatility	76.76%	76.68%	73.39%	71.61%	70.42%
Term (years)	1.51	1.76	2.01	2.26	2.51
Fair value	$0.4 million	$0.3 million	$0.1 million	$0.2 million	$0.3 million

The Company recorded a net gain of $0.1 million and a net loss of $0.2 million, resulting from the changes in the fair value of the Exchanged Warrant during the three months ended December 31, 2016 and 2015, respectively. The Company recorded a net gain of $0.3 million resulting from the decrease in the fair value of the Exchanged Warrant during the nine months ended December 31, 2016 and no change resulting from any changes in the fair value of the Exchanged Warrant during the nine months ended December 31, 2015.

Hercules Warrant

On December 19, 2014, the Company entered into the Hercules Second Amendment. See Note 9, “Debt” for additional information. In conjunction with the agreement, the Company issued the Hercules Warrant to purchase 58,823 shares of the Company’s common stock. The Hercules Warrant is exercisable at any time after its issuance at an initial exercise price of $11.00 per share, subject to certain price-based and other anti-dilution adjustments, and expires on June 30, 2020. As a result of the equity offering in April 2015, the exercise price of the Hercules Warrant was reduced to $9.41 per share.

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

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

Fiscal Year 16	December 31, 2016	September 30, 2016	June 30, 2016
Risk-free interest rate	1.57%	0.97%	0.86%
Expected annual dividend yield	—	—	—
Expected volatility	67.28%	67.98%	68.34%
Term (years)	3.50	3.75	4.00
Fair value	$0.2 million	$0.2 million	$0.3 million

Fiscal Year 15	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Risk-free interest rate	1.08%	1.65%	1.31%	1.63%	1.41%
Expected annual dividend yield	—	—	—	—	—
Expected volatility	70.25%	73.57%	75.32%	72.57%	74.60%
Term (years)	4.25	4.50	4.75	5.00	5.25
Fair value	$0.2 million	$0.2 million	$0.1 million	$0.2 million	$0.2 million

The Company recorded no change in fair value of derivatives and warrants during the three months ended December 31, 2016 and a net loss, resulting from an increase in the fair value of the Hercules Warrant of less than $0.1 million during the three months ended December 31, 2015. The Company recorded net gains of less than $0.1 million in the fair value of the Hercules Warrant during each of the nine months ended December 31, 2016 and 2015.

November 2014 Warrant

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

November 2014 Warrant is exercisable at any time, at an initial exercise price equal to $11.00 per share, subject to certain price-based and other anti-dilution adjustments, and expires on November 13, 2019. As a result of the April 2015 equity offering, the exercise price of the November 2014 Warrant was reduced to $9.41 per share.
The Company accounts for the November 2014 Warrant as a liability due to certain provisions within the warrant. The November 2014 Warrant is subject to revaluation at each balance sheet date and any change in fair value is recorded as a change in fair value of derivatives and warrants until the earlier of its expiration or its exercise, at which time the warrant liability will be reclassified to equity.
Following is a summary of the key assumptions used to calculate the fair value of the November 2014 Warrant:

Fiscal Year 16	December 31, 2016	September 30, 2016	June 30, 2016
Risk-free interest rate	1.43%	0.93%	0.77%
Expected annual dividend yield	—	—	—
Expected volatility	69.31%	68.96%	70.01%
Term (years)	2.87	3.12	3.37
Fair value	$2.3 million	$2.3 million	$3.2 million

Fiscal Year 15	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Risk-free interest rate	0.98%	1.51%	1.17%	1.44%	1.28%
Expected annual dividend yield	—	—	—	—	—
Expected volatility	69.88%	70.02%	73.02%	74.18%	75.96%
Term (years)	3.62	3.87	4.12	4.37	4.62
Fair value	$2.6 million	$2.1 million	$1.3 million	$1.8 million	$2.5 million

The Company recorded no change resulting from any changes in the fair value of the November 2014 Warrant in the three months ended December 31, 2016 and a net loss, resulting from an increase in the fair value of the November 2014 Warrant of $0.8 million in the three months ended December 31, 2015. The Company recorded net gains, resulting from a decrease in the fair value of the November 2014 Warrant of $0.3 million and $0.4 million during the nine months ended December 31, 2016 and 2015, respectively.
The Company prepared its estimates for the assumptions used to determine the fair value of the warrants issued in conjunction with both the Term Loans and our unsecured, senior convertible note with CVI, as well as the November 2014 Warrant utilizing the respective terms of the warrants with similar inputs, as described above.

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

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

15

On September 13, 2011, the Company commenced a series of legal actions in China against Sinovel Wind Group Co. Ltd. ("Sinovel"). The Company's Chinese subsidiary, Suzhou AMSC Superconductor Co. Ltd., filed a claim for arbitration with the Beijing Arbitration Commission in accordance with the terms of the Company's supply contracts with Sinovel. The case is captioned (2011) Jing Zhong An Zi No. 963. The Company alleges that Sinovel committed various material breaches of its contracts with the Company and 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 (approximately $73 million) due to Sinovel's breaches of its contracts. The Company is also seeking specific performance of its existing contracts as well as reimbursement of all costs and reasonable expenses with respect to the arbitration. The value of the undelivered components under the existing contracts, including the deliveries refused by Sinovel in March 2011, amounts to approximately RMB 4.6 billion (approximately $690 million).

On October 8, 2011, Sinovel filed with the Beijing Arbitration Commission an application under the caption (2011) Jing Zhong An Zi No. 963, for a counterclaim against the Company for breach of the same contracts under which the Company filed its original arbitration claim. Sinovel claims, among other things, that the goods supplied by the Company do not conform to the standards specified in the contracts and claims damages in the amount of approximately RMB 1.2 billion (approximately $180 million) upon Sinovel's requests for change of counterclaim. On February 27, 2012, Sinovel filed with the Beijing Arbitration Commission an application under the caption (2012) Jing Zhong An Zi No. 157, against the Company for breach of the same contracts under which the Company filed its original arbitration claim. Sinovel claims, among other things, that the goods supplied by the Company do not conform to the standards specified in the contracts and claims damages in the amount of approximately RMB 105 million (approximately $16 million). The Company believes that Sinovel's claims are without merit and it intends to defend these actions vigorously. Since the proceedings in this matter are still in the early technical review phase, the Company cannot reasonably estimate possible losses or range of losses at this time.

Other

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

As of December 31, 2016, the Company had $0.8 million of restricted cash included in current assets and $0.1 million of restricted cash included in long-term assets. These amounts included in restricted cash primarily represent deposits to secure letters of credit for various supply contracts. These deposits are held in interest bearing accounts.

13. Minority Investments

Investment in Tres Amigas LLC

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

During the three months ended June 30, 2015, the Company determined that as a result of delays in Tres Amigas securing financing for the project, as well as the Company's expectation that its investment would not be recoverable based on recent adverse market indicators for potential sales of the Company's share of the investment, that its investment in Tres Amigas required further analysis for other-than-temporary impairment. The Company recorded an impairment charge of $0.7 million to fully impair this investment in the three months ended June 30, 2015.

On March 11, 2016, the Company sold 100% of its minority share investment in Tres Amigas to an investor for $0.6 million. The Company received $0.3 million according to the terms of the purchase agreement upon closing, which was recorded as a gain during the three months ended March 31, 2016. The final $0.3 million was received and recorded as a gain during the third quarter of fiscal 2016.

14. Business Segments

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

Through the Company's Windtec Solutions, the Wind business segment enables manufacturers to field wind turbines with exceptional power output, reliability and affordability. The Company supplies advanced power electronics and control systems, licenses its highly engineered wind turbine designs, and provides extensive customer support services to wind turbine manufacturers. The Company's design portfolio includes a broad range of drive trains and power ratings of 2 MWs and higher. The Company provides a broad range of power electronics and software-based control systems that are highly integrated and designed for optimized performance, efficiency, and grid compatibility.

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

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

	Three months ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
Revenues:				
Wind	$18,248	$17,229	$36,822	$48,976
Grid	8,900	8,543	22,178	19,523
Total	$27,148	$25,772	$59,000	$68,499

	Three months ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
Operating (loss) profit:				
Wind	$1,044	$(263)	$(3,220)	$(2,127)
Grid	(4,491)	(2,342)	(15,068)	(12,963)
Unallocated corporate expenses	(613)	(707)	(2,266)	(3,321)
Total	$(4,060)	$(3,312)	$(20,554)	$(18,411)

The accounting policies of the business segments are the same as those for the consolidated Company. The Company's business segments have been determined in accordance with the Company's internal management structure, which is organized based on operating activities. The Company evaluates performance based upon several factors, of which the primary financial measures are segment revenues and segment operating loss. The disaggregated financial results of the segments reflect allocation of certain functional expense categories consistent with the basis and manner in which Company management internally disaggregates financial information for the purpose of assisting in making internal operating decisions. In addition, certain corporate expenses which the Company does not believe are specifically attributable or allocable to either of the two business segments have been excluded from the segment operating loss. Unallocated corporate expenses primarily consist of stock-based compensation expense of $0.6 million and $0.7 million in the three months ended December 31, 2016 and 2015, respectively, and stock-based compensation expense of $2.3 million and $2.5 million in the nine months ended December 31, 2016 and 2015, respectively. Additionally, unallocated corporate expenses include an impairment charge of $0.7 million for the nine months ended December 31, 2015.

Total assets for the two business segments as of December 31, 2016 and March 31, 2016 are as follows (in thousands):

	December 31, 2016	March 31, 2016
Wind	$ 26,075	$34,389
Grid	34,869	36,255
Corporate assets	49,297	64,674

Total	$ 110,241	$ 135,318

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, 2016 and 2015:

17

	Three months ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
INOX Wind Limited	66 %	64 %	58 %	58 %
Hidalgo Wind Farm LLC	17 %	— %	<10%	— %
Fuji Bridex Pte Ltd	<10%	18 %	<10%	<10%

15. Recent Accounting Pronouncements

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

In July 2014, the FASB issued ASU 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share Based Payments When the Terms of an Award Provide that a Performance Target could be Achieved after the Requisite Service Period. To account for such awards, a reporting entity should apply existing guidance in FASB Accounting Standards Codification Topic 718, Compensation - Stock Compensation, as it relates to awards with performance conditions that affect vesting. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. The Company adopted ASU 2014-12 effective April 1, 2016 and concludes that there is no material impact on its current practices.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern. The new standard explicitly requires the assessment at interim and annual periods, and provides management with its own disclosure guidance. This ASU is effective for annual reporting periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. The Company expects to adopt ASU 2014-15 effective March 31, 2017 and is currently evaluating the impact, if any, the adoption of ASU 2014-15 may have on its current practices.

In April 2015, the FASB issued ASU 2015-03 Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in ASU 2015-03 require an entity to present debt issuance costs on the balance sheet as a direct deduction from the related debt liability as opposed to an asset. Amortization of the costs will continue to be reported as interest expense. The Company adopted ASU 2015-03 effective April 1, 2016 and concludes that there is no material impact on its consolidated results of operations, financial condition, or cash flow.

In June 2015, the FASB issued ASU 2015-10 Technical Corrections and Improvements. The amendments in ASU 2015-10 clarify and correct some of the differences that arose between original guidance from FASB, EITF and other sources, and the translation into the new Codification. The Company adopted ASU 2015-10 effective April 1, 2016 and concludes that there is no material impact on its consolidated results of operations, financial condition, or cash flow.

In July 2015, the FASB issued ASU 2015-11 Inventory (Topic 330): Simplifying the Measurement of Inventory. The amendments in ASU 2015-11 clarify the proper way to identify market value in the use of lower of cost or market value valuation method. As market value could be determined multiple ways under prior standards, it will now be considered as net realizable value. This ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. The Company expects to adopt ASU 2015-11 effective March 31, 2017 and is currently evaluating the impact, if any, the adoption of ASU 2015-11 may have on its current practices.

In September 2015, the FASB issued ASU 2015-16 Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The amendments in ASU 2015-16 require that an acquirer recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustment amounts are determined. The Company adopted ASU 2015-16 effective April 1, 2016 and concludes that there is no material impact on its consolidated results of operations, financial condition, or cash flow.

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

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the effects adoption of this guidance will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08 Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments in ASU 2016-08 clarify the implementation guidance on principal versus agent consideration. The ASU is effective for annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact, if any, the adoption of ASU 2016-08 may have on its current practices.

In March 2016, the FASB issued ASU 2016-09 Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in ASU 2016-09 will simplify several aspects of the accounting for share-based payment transactions, including tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods. The Company expects to adopt ASU 2016-09 effective March 31, 2017 and is currently evaluating the impact, if any, the adoption of ASU 2016-09 may have on its current practices.

In April 2016, the FASB issued ASU 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments in ASU 2016-10 will clarify the identification of performance obligations and the licensing implementation guidance. The ASU is effective for annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact, if any, the adoption of ASU 2016-10 may have on its current practices.

In April 2016, the FASB issued ASU 2016-12 Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The amendments in ASU 2016-12 will clarify the prior guidance surrounding collectability criteria, presentation of taxes collected, non-cash consideration, contract modifications, completed contracts at completion and retrospective application guidance. The ASU is effective for annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact the adoption of ASU 2016-12 may have on its current practices.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in ASU 2016-13 will provide more decision useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The ASU is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that year. The Company is currently evaluating the impact, if any, the adoption of ASU 2016-13 may have on its current practices.

In August 2016, the FASB issued ASU 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments in ASU 2016-15 will provide more guidance towards the classification of multiple different types of cash flows in order to reduce the diversity in reporting across entities. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that year. The Company is currently evaluating the impact, if any, the adoption of ASU 2016-15 may have on its current practices.

In October 2016, the FASB issued ASU 2016-16—Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The amendments in ASU 2016-16 will improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that year. The Company is currently evaluating the impact, if any, the adoption of ASU 2016-16 may have on its current practices.

In November 2016, the FASB issued ASU 2016-18—Statement of Cash Flows (Topic 230): Restricted Cash. The amendments in ASU 2016-18 will explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that year. The Company is currently evaluating the impact, if any, the adoption of ASU 2016-18 may have on its current practices.
In December 2016, the FASB issued ASU 2016-19—Technical Corrections and Improvements. The amendments in ASU 2016-19 will improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that year. The Company is currently evaluating the impact, if any, the adoption of ASU 2016-19 may have on its current practices.
In December 2016, the FASB issued ASU 2016-20—Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. The amendments in ASU 2016-20 will clarify the codification and correct unintended application of guidance. These items generally are not expected to have a significant effect on current accounting practice or create a significant administrative cost for most entities. The ASU is effective for annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact the adoption of ASU 2014-09 may have on its current practices.

16. Subsequent Events
On January 27, 2017, the Company entered into an At Market Issuance Sales Agreement ("ATM") with FBR Capital Markets & Co ("FBR") under which the Company may, at its discretion, sell up to $10.0 million of its shares of common stock through FBR. FBR has agreed to use its commercially reasonable efforts to sell the Company's common stock from time to time, based upon the Company's instructions (including any price, time or size limits or other customary parameters or conditions the Company may impose). Sales under the ATM, if any, would be made pursuant to the prospectus supplement dated January 27, 2017, which supplements the prospectus dated October 1, 2014, included in the shelf registration statement that AMSC filed with the Securities and Exchange Commission ("SEC") on September 19, 2014.
As of the time of filing this Quarterly Report on Form 10-Q with the SEC, and has determined that there are no other such events to report.

AMERICAN SUPERCONDUCTOR CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For this purpose, any statements contained herein that relate to future events or conditions, including without limitation, the statements in Part II, "Item 1A. Risk Factors" and in Part I under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and located elsewhere herein regarding industry prospects or our prospective results of operations or financial position, may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements. Such forward-looking statements represent management's current expectations and are inherently uncertain. There are a number of important factors that could materially impact the value of our common stock or cause actual results to differ materially from those indicated by such forward-looking statements. Such factors include: We have a history of operating losses, which may continue in the future. Our operating results may fluctuate significantly from quarter to quarter and may fall below expectations in any particular fiscal quarter; We have a history of negative operating cash flows, and we may require additional financing in the future, which may not be available to us; We may be required to issue performance bonds or provide letters of credit, which restricts our ability to access any cash used as collateral for the bonds or letters of credit; Changes in exchange rates could adversely affect our results from operations; If we fail to maintain proper and effective internal controls over financial reporting, our ability to produce accurate and timely financial statements could be impaired and may lead investors and other users to lose confidence in our financial data; Our Term Loans include certain covenants and other events of default. Should we not comply with these covenants or incur an event of default, we may be required to repay our obligation in cash, which could have an adverse effect on our liquidity; A significant portion of our revenues are derived from a single customer; Our financial condition may have an adverse effect on our customer and supplier relationships; Our success in addressing the wind energy market is dependent on the manufacturers that license our designs; Our success is dependent upon attracting and retaining qualified personnel and our inability to do so could significantly damage our business and prospects; We may not realize all of the sales expected from our backlog of orders and contracts; Our business and operations would be adversely impacted in the event of a failure or security breach of our information technology infrastructure; We may have manufacturing quality issues at our manufacturing facility in Romania, which would negatively affect our revenues and financial position; We rely upon third-party suppliers for the components and subassemblies of many of our Wind and Grid products, making us vulnerable to supply shortages and price fluctuations, which could harm our business; Many of our revenue opportunities are dependent upon subcontractors and other business collaborators; If we fail to implement our business strategy successfully, our financial performance could be harmed; Problems with product quality or product performance may cause us to incur warranty expenses and may damage our market reputation and prevent us from achieving increased sales and market share; Our contracts with the U.S. government are subject to audit, modification or termination by the U.S. government and include certain other provisions in favor of the government. The continued funding of such contracts remains subject to annual congressional appropriation which, if not approved, could reduce our revenue and lower or eliminate our profit; Many of our customers outside of the United States, particularly in China, are either directly or indirectly, related to governmental entities, and we could be adversely affected by violations of the United States Foreign Corrupt Practices Act and similar worldwide anti-bribery laws outside the United States; We have had limited success in marketing and selling our superconductor products and system-level solutions, and our failure to more broadly market and sell our products and solutions could lower our revenue and cash flow; We may acquire additional complementary businesses or technologies, which may require us to incur substantial costs for which we may never realize the anticipated benefits; Our success depends upon the commercial use of high temperature superconductor ("HTS") products, which is currently limited, and a widespread commercial market for our products may not develop; Growth of the wind energy market depends largely on the availability and size of government subsidies and economic incentives; We have operations in and depend on sales in emerging markets, including India and China, and global conditions could negatively affect our operating results or limit our ability to expand our operations outside of these countries. Changes in India's or China's political, social, regulatory and economic environment may affect our financial performance; Our products face intense competition, which could limit our ability to acquire or retain customers; Our international operations are subject to risks that we do not face in the United States, which could have an adverse effect on our operating results; Adverse changes in domestic and global economic conditions could adversely affect our operating results; We may be unable to adequately prevent disclosure of trade secrets and other proprietary information; Our patents may not provide meaningful protection for our technology, which could result in us losing some or all of our market position; There are a number of technological challenges that must be successfully addressed before our superconductor products can gain widespread commercial acceptance, and our inability to address such technological challenges could adversely affect our ability to acquire customers for our products; Third parties have or may acquire patents that cover the materials, processes and technologies we use or may use in the future to manufacture our Amperium products, and our success

depends on our ability to license such patents or other proprietary rights; Our technology and products could infringe intellectual property rights of others, which may require costly litigation and, if we are not successful, could cause us to pay substantial damages and disrupt our business; We have filed a demand for arbitration and other lawsuits against our former largest customer, Sinovel, regarding amounts we contend are overdue. We cannot be certain as to the outcome of these proceedings; We have been named as a party in various legal proceedings, and we may be named in additional litigation, all of which will require significant management time and attention, result in significant legal expenses and may result in an unfavorable outcome, which could have a material adverse effect on our business, operating results and financial condition; and our common stock has experienced, and may continue to experience, significant market price and volume fluctuations, which may prevent our stockholders from selling our common stock at a profit and could lead to costly litigation against us that could divert our management's attention. These and the important factors discussed under the caption "Risk Factors" in Part 1. Item 1A of our Form 10-K for the fiscal year ended March 31, 2016, among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time. Any such forward-looking statements represent management's estimates as of the date of this Quarterly Report on Form 10-Q. While we may elect to update such forward-looking statements at some point in the future, we disclaim any obligation to do so, even if subsequent events cause our views to change. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.
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Executive Overview

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

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

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

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

- Wind. Through our Windtec Solutions™, our Wind business segment enables manufacturers to field wind turbines with exceptional power output, reliability and affordability. We supply advanced power electronics and control systems, license our highly engineered wind turbine designs, and provide extensive customer support services to wind turbine manufacturers. Our design portfolio includes a broad range of drive trains and power ratings of 2 megawatts ("MW") and higher. We provide a broad range of power electronics and software-based control systems that are highly integrated and designed for optimized performance, efficiency, and grid compatibility.

- Grid. Through our Gridtec Solutions™, our Grid business segment enables electric utilities and renewable energy project developers to connect, transmit and distribute power with exceptional efficiency, reliability, security and affordability. We provide transmission planning services that allow us to identify power grid congestion, poor power quality, and other risks, which help us determine how our solutions can improve network performance.

22

These services often lead to sales of our grid interconnection solutions for wind farms and solar power plants, power quality systems and transmission and distribution cable systems. We also sell ship protection products to the U.S. Navy through our Grid business segment.

Our fiscal year begins on April 1 and ends on March 31. When we refer to a particular fiscal year, we are referring to the fiscal year beginning on April 1 of that same year. For example, fiscal 2016 refers to the fiscal year beginning on April 1, 2016. Other fiscal years follow similarly.

We have experienced recurring operating losses and as of December 31, 2016, had an accumulated deficit of $948.6 million. In addition, we have experienced recurring negative operating cash flows. At December 31, 2016, we had cash and cash equivalents of $25.1 million. Cash used in operations for the nine months ended December 31, 2016 was $10.5 million. We expect to use less cash for operations in the second half of the fiscal year ending March 31, 2017 compared to the first half. On January 27, 2017, we entered into an At Market Issuance Sales Agreement ("ATM"), under which we may sell, at our discretion, up to $10.0 million of shares of our common stock. See "Liquidity and Capital Resources" below for additional discussion.

Over the last several years, we have entered into several debt and equity financing arrangements in order to enhance liquidity. Since April 1, 2012, we generated aggregate cash flows from financing activities of $67.3 million. This amount includes proceeds from our April 2015 equity offering, which generated net proceeds of approximately $22.3 million, after deducting underwriting discounts, commissions and offering expenses. See Note 9, “Debt”, and Note 11 “Stockholders Equity” for further discussion of these financing arrangements. We believe that we are in compliance with the covenants and restrictions included in the agreements governing our debt arrangements as of December 31, 2016.

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

Our cash requirements depend on numerous factors, including the successful completion of our product development activities, our ability to commercialize our Resilient Electric Grid ("REG") and ship protection system solutions, rate of customer and market adoption of our products, collecting receivables according to established terms, and the continued availability of U.S. government funding during the product development phase of our Superconductors based products. In December 2015, we entered into a set of strategic agreements valued at approximately $210.0 million with Inox Wind Limited ("Inox"), which includes a multi-year supply contract pursuant to which we will supply electric control systems to Inox and a license agreement allowing Inox to manufacture a limited number of electrical control systems over the following three to four years. After this initial three to four year period, Inox agreed that we will continue as Inox’s preferred supplier and Inox will be required to purchase from us a majority of its electric control systems requirements for an additional three-year period. These agreements are expected to provide a foundation for the business as we pursue our longer-term objectives. Significant deviations to our business plan with regard to these factors and events, including any prolonged disruption in our revenues with our largest customers, which are important drivers to our business, could have a material adverse effect on our operating performance, financial condition, and future business prospects. We expect to pursue the expansion of our operations through internal growth, diversification of our customer base, and potential strategic alliances. See “Liquidity and Capital Resources” below for additional discussion.

On March 11, 2016, we sold 100% of our minority investment in Tres Amigas to an investor for $0.6 million. We received $0.3 million according to the terms of the purchase agreement upon closing, which was recorded as a gain during the three months ended March 31, 2016. The final $0.3 million was received and recorded as a gain during the third quarter of fiscal 2016. See Note 13, “Minority Investments”, for further information about such investment.

Critical Accounting Policies and Estimates

The preparation of the unaudited condensed consolidated financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ under different assumptions or conditions. During the nine months ended December 31, 2016 there were no significant changes in the critical accounting policies that were disclosed in our Form 10-K for fiscal 2015, which ended on March 31, 2016.

Results of Operations

Three and nine months ended December 31, 2016 compared to the three and nine months ended December 31, 2015

Revenues

Total revenues increased 5% and decreased 14% to $27.1 million and $59.0 million for the three and nine months ended December 31, 2016, respectively, compared to $25.8 million and $68.5 million for the three and nine months ended December 31, 2015, respectively. Our revenues are summarized as follows (in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
Revenues:				
Wind	$18,248	$17,229	$36,822	$48,976
Grid	8,900	8,543	22,178	19,523
Total	$27,148	$25,772	$59,000	$68,499

Our Wind business unit accounted for 67% and 62% of total revenues for the three and nine months ended December 31, 2016, respectively, compared to 67% and 71% for the three and nine months ended December 31, 2015, respectively. Revenues in the Wind business unit increased 6% and decreased 25% to $18.2 million and $36.8 million in the three and nine months ended December 31, 2016, respectively, from $17.2 million and $49.0 million in the three and nine months ended December 31, 2015, respectively. Wind business unit revenues in the three months ended December 31, 2016 compared to the three months ended December 31, 2015 increased slightly due primarily to higher revenue from Inox in India. Wind business unit revenues in the nine months ended December 31, 2016 as compared to the nine months ended December 31, 2015 decreased primarily due to a lower volume of sales to Inox in India particularly in the first half of fiscal 2016, lower royalty revenues, and lower sales of spare parts.

Our Grid business unit accounted for 33% and 38% of total revenues for the three and nine months ended December 31, 2016, respectively, compared to 33% and 29% for the three and nine months ended December 31, 2015, respectively. Our Grid business unit revenues increased 4% and 14% to $8.9 million and $22.2 million in the three and nine months ended December 31, 2016, respectively, from $8.5 million and $19.5 million in the three and nine months ended December 31, 2015, respectively. Grid business unit revenues in the three months ended December 31, 2016 increased primarily due to revenue from the Joint Development Agreement with BASF. Grid business unit revenues in the nine months ended December 31, 2016 increased primarily due to higher revenues from the Joint Development Agreement with BASF and higher revenues from a project with the U.S. Navy.

Revenues from Project HYDRA and Project REG represented 3% and 9% of our Grid business unit's revenue for the three and nine months ended December 31, 2016 and 6% and 7% for the three and nine months ended December 31, 2015, respectively. Our revenues for these projects are derived by funding from the Department of Homeland Security ("DHS"). Project HYDRA is a project with Consolidated Edison, Inc. ("ConEd") to demonstrate our REG product in ConEd's electric grid. Project REG is a project with Commonwealth Edison, Inc. ("ComEd") to permanently install our REG product in ComEd's electric grid. This fault current limiting cable system is designed to utilize customized Amperium® HTS wire, and ancillary controls to deliver more power through the grid while also being able to suppress power surges that can disrupt service. DHS has committed 100% of the total expected funding of $29.0 million for Project HYDRA. Under Project REG, DHS is expected to invest up to $60.0 million to enable the deployment of the REG system in Chicago's electric grid. We have substantially completed the first phase of the project which among other things, has resulted in the creation of a detailed deployment plan. In the fiscal year ended March 31, 2015, DHS committed funding of $1.5 million for this phase of the project. During the fiscal year ended March 31, 2016, DHS committed funding of an additional $3.7 million, for a total of $5.2 million. This additional funding serves as a bridge between the detailed deployment plan and construction phases of the project. The period of performance to complete the engineering work extends through May 31, 2017. The final phase of the project involves the delivery of the REG system and the associated construction and deployment of the system in ComEd's grid. We will not begin this phase of the project until all parties agree to proceed. There can be no assurance that all parties will agree to proceed with the project.

The following table sets forth customers who represented 10% or more of our total revenues for the three and nine months ended December 31, 2016 and 2015:

	Three months ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
INOX Wind Limited	66 %	64 %	58 %	58 %
Hidalgo Wind Farm LLC	17 %	— %	<10%	— %
Fuji Bridex Pte Ltd	<10%	18 %	<10%	<10%

Cost of Revenues and Gross Margin

Cost of revenues increased by 15% and decreased by 9% to $22.1 million and $51.0 million for the three and nine months ended December 31, 2016, respectively, compared to $19.3 million and $55.8 million for the three and nine months ended December 31, 2015, respectively. Gross margin was 18.6% and 13.6% for the three and nine months ended December 31, 2016, respectively, compared to 25.3% and 18.6% for the three and nine months ended December 31, 2015, respectively. The decrease in the gross margin for the three months ended December 31, 2016 was due primarily to higher utilization of zero cost-basis inventory in the prior year period. The decreases in gross margin in the nine months ended December 31, 2016 were primarily due to higher utilization of the zero cost-basis inventory in the prior year period, and lower revenues, particularly royalty revenue in the nine months ended December 31, 2016, which generates 100% gross margin.

Operating Expenses

Research and development

R&D expenses increased by 8% and decreased by 1% to $3.0 million and $8.8 million for the three and nine months ended December 31, 2016, respectively, from $2.8 million and $8.9 million for the three and nine months ended December 31, 2015, respectively. The increase in the three months ended December 31, 2016 compared to the three months ended December 31, 2015 is primarily due to increased supplies and materials consumed in the current-year period on new product development in our Grid segment. The decrease in the nine months ended December 31, 2016 compared to the nine months ended December 31, 2015 is primarily the result of lower overall compensation costs, partially offset by increased supplies and materials consumed, specifically in the three month period, on new product development in our Grid segment.

Selling, general, and administrative

SG&A expenses decreased by 13% and 8% to $6.1 million and $19.6 million in the three and nine months ended December 31, 2016, respectively, from $7.0 million and $21.3 million in the three and nine months ended December 31, 2015, respectively. The decrease in SG&A expenses in the three months ended December 31, 2016 was due primarily to reduced compensation and legal costs, as well as decreased license fees. The decreased SG&A expense in the nine months ended December 31, 2016 compared to the nine months ended December 31, 2015 was due primarily to lower compensation, legal and depreciation expenses, as well as a recovery of bad debt.

Impairment of minority interest investment

We recorded an impairment charge of $0.7 million in the nine months ended December 31, 2015, to fully impair our investment in Tres Amigas as our investment was no longer deemed recoverable.

Amortization of acquisition related intangibles

We recorded amortization expense related to our core technology and know-how, trade names and trademark intangible assets of less than $0.1 million in each of the three and nine months ended December 31, 2016 and 2015.

Operating loss

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

	Three months ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
Operating (loss) profit:				
Wind	$1,044	$(263)	$(3,220)	$(2,127)
Grid	(4,491)	(2,342)	(15,068)	(12,963)
Unallocated corporate expenses	(613)	(707)	(2,266)	(3,321)
Total	$(4,060)	$(3,312)	$(20,554)	$(18,411)

Our Wind segment generated an operating profit of $1.0 million and operating loss of $3.2 million in the three and nine months ended December 31, 2016, respectively, compared to losses of $0.3 million and $2.1 million in the three and nine months ended December 31, 2015, respectively. The increase in the Wind business unit operating profit in the three months ended December 31, 2016 as compared to the three months ended December 31, 2015 was due primarily to costs arising from the transitioning of manufacturing from China to Romania in the prior fiscal year. The increase in Wind business unit operating loss in the nine months ended December 31, 2016 as compared to the nine months ended December 31, 2015 was due primarily to lower revenues in the current year period and higher utilization of zero cost-basis inventory in the prior year period as previously discussed.

The operating loss in our Grid segment increased to $4.5 million in the three months ended December 31, 2016 from $2.3 million in the three months ended December 31, 2015, due primarily to lower gross margin. The operating loss in our Grid segment was $15.1 million and $13.0 million in the nine months ended December 31, 2016 and 2015, respectively, as higher engineering and sales and marketing expenses in the current year period was partially offset by higher revenue and gross margin in the current year period.

Unallocated corporate expenses primarily include stock-based compensation expense of $0.6 million and $2.3 million for the three and nine months ended December 31, 2016, respectively, and $0.7 million and $2.5 million for the three and nine months ended December 31, 2015, respectively, and an impairment charge of $0.7 million, for the nine months ended December 31, 2015.

Change in fair value of derivatives and warrants

The change in fair value of derivatives and warrants resulted in gains of $0.1 million and $0.7 million in the three and nine months ended December 31, 2016, respectively, compared to a loss of $1.1 million and gain of $0.4 million in the three and nine months ended December 31, 2015, respectively. The changes in the fair value were primarily driven by changes in stock price, which is a key valuation metric.

Gain on sale of minority interest

We recorded a gain on sale of minority interest of $0.3 million in each of the three and nine months ended December 31, 2016, related to the receipt of the final payment for the sale of our investment in Tres Amigas. We recorded a gain on sale of minority interest of $2.5 million in each of the three and nine months ended December 31, 2015, related to the previously disclosed sale of our investment in Blade Dynamics.

Interest expense, net

Interest expense, net, was $0.1 million and $0.3 million in the three and nine months ended December 31, 2016, respectively, compared to $0.2 million and $0.8 million in the three and nine months ended December 31, 2015, respectively. The interest expense is related to the remaining balances on our Term Loan B, which matured in November 2016, and Term Loan C, which will mature in June 2017. Both of these loans were made by Hercules Technology Growth Capital, Inc. ("Hercules").

Other income (expense), net

Other income, net, was $0.9 million and $0.5 million in the three and nine months ended December 31, 2016, respectively, compared to other expense, net, of less than $0.1 million and $1.2 million in the three and nine months ended December 31, 2015, respectively. The increase in other income, net during the three months ended December 31, 2016, was primarily driven by higher foreign currency gains. The increase in other income, net, during the nine months ended December 31, 2016 was primarily the result of lower charges for our minority interest in Tres Amigas in the current year period following the impairment of such minority interest in the prior year period.

Income Taxes

Income tax benefit was $0.1 million and income tax expense was $1.0 million in the three and nine months ended December 31, 2016, respectively, compared to income tax expense of $0.8 million and $2.3 million in the three and nine months ended December 31, 2015, respectively. The decreases in income tax expense during the three and nine months ended December 31, 2016 were primarily due to lower taxes in our foreign jurisdictions.

Non-GAAP Measures

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

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

	Three months ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
Net loss	$(2,768)	$(2,957)	$(20,448)	$(19,777)
Gain on sale of interest in minority investments, net of tax effect	(325)	(2,354)	(325)	(2,354)
Stock-based compensation	613	708	2,266	2,542
Amortization of acquisition-related intangibles	39	39	118	118
Impairment loss	—	—	—	779
Consumption of zero cost-basis inventory	(478)	(1,543)	(1,118)	(3,612)
Change in fair value of derivatives and warrants	(101)	1,092	(667)	(409)
Non-cash interest expense	30	83	127	290
Tax effect of adjustments	77	—	179	—
Non-GAAP net loss	$(2,913)	$(4,932)	$(19,868)	$(22,423)
Non-GAAP net loss per share	$(0.21)	$(0.36)	$(1.45)	$(1.72)
Weighted average shares outstanding - basic and diluted	13,792	13,539	13,746	13,052

We incurred non-GAAP net losses of $2.9 million or $0.21 per share, and $19.9 million or $1.45 per share, for the three and nine months ended December 31, 2016, respectively, compared to non-GAAP net losses of $4.9 million or $0.36 per share, and $22.4 million or $1.72 per share, for the three and nine months ended December 31, 2015, respectively. The decrease in non-GAAP net loss in the three month period ended December 31, 2016 compared to the three month period ended December 31, 2015 was driven primarily by a decrease in net loss and a decreased gain on sale of interest in minority investments compared to the prior year period. The decrease in non-GAAP net loss in the nine months ended December 31, 2016 compared to the nine month period ended December 31, 2015 was driven primarily by lower addbacks to net loss from the gain on sale of minority investments, and by lower consumption of zero cost-basis inventory.

Liquidity and Capital Resources

At December 31, 2016, we had cash, cash equivalents, and restricted cash of $26.0 million, compared to $40.7 million at March 31, 2016, a decrease of $14.7 million. Our cash and cash equivalents, and restricted cash are summarized as follows (in thousands):

	December 31, 2016	March 31, 2016
Cash and cash equivalents	$ 25,063	$ 39,330
Restricted cash	935	1,391
Total cash, cash equivalents, and restricted cash	$ 25,998	$ 40,721

As of December 31, 2016, we had approximately $3.5 million of cash, cash equivalents, and restricted cash in foreign bank accounts, with a majority of this cash located in Europe. The decrease in total cash and cash equivalents, and restricted cash was due primarily to cash used by operating and by financing activities. See further discussion below.

For the nine months ended December 31, 2016, net cash used in operating activities was $10.5 million compared to $7.8 million for the nine months ended December 31, 2015. The increase in net cash used in operations was due primarily to an increased operating loss during the first nine months of fiscal 2016.

For the nine months ended December 31, 2016, net cash provided by investing activities was $0.4 million, compared to $4.9 million for the nine months ended December 31, 2015. The decrease in net cash provided by investing activities was due primarily to a decrease in restricted cash as well as lower proceeds related to the sale of our minority interests than in the nine months ended December 31, 2015.

For the nine months ended December 31, 2016, net cash used in financing activities was $3.7 million compared to net cash provided by financing activities of $19.2 million in the nine months ended December 31, 2015. The increase in net cash used in financing activities was primarily due to net proceeds of $22.3 million from the issuance of 4.0 million shares of common stock on April 29, 2015, with no such capital raise in the current year period.

At December 31, 2016, we had $0.8 million of restricted cash included in current assets and $0.1 million of restricted cash included in long-term assets. These amounts included in restricted cash primarily represent deposits to secure letters of credit for various supply contracts. These deposits are held in interest bearing accounts.

On November 15, 2013, we amended our Loan and Security Agreement with Hercules and entered into a new term loan (the "Term Loan B"), borrowing $10.0 million. After closing fees and expenses, we received net proceeds of $9.8 million. The Term Loan B bears an interest rate equal to 11% plus the percentage, if any, in which the prime rate as reported by The Wall Street Journal exceeds 3.75%. We made interest-only payments from December 1, 2013 to May 31, 2014. If we achieved certain revenue targets for the six-month period ending March 31, 2014, interest only payments would continue through August 31, 2014. We did not achieve the revenue required to extend this interest only period. Beginning June 1, 2014, we began making payments on the Term Loan B in equal monthly installments which ended at maturity on November 1, 2016.

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

The Term Loans are secured by substantially all of our existing and future assets, including a mortgage on real property owned by our wholly-owned subsidiary, ASC Devens LLC, and located at 64 Jackson Road, Devens, Massachusetts. The Term Loans contain certain covenants that restrict our ability to, among other things, incur or assume certain debt, merge or consolidate, materially change the nature of our business, acquire or dispose of certain assets, make guarantees or grant liens on our assets, make certain loans, advances or investments, declare dividends or make distributions or enter into transactions with affiliates. In addition, there is a covenant that requires us to maintain a minimum unrestricted cash balance (the "Minimum Threshold") in the United States. As a result of the April 2015 offering (see discussion below), the Minimum Threshold was reduced to the lesser of $2.0 million or the aggregate outstanding principal balance of the Term Loans. As of December 31, 2016, the Minimum Threshold was $1.5 million. The events of default under the Term Loans include, but are not limited to, failure to pay amounts due, breaches of covenants, bankruptcy events, cross defaults under other material indebtedness and the occurrence of a material adverse effect and/or change in control. In the case of a continuing event of default, Hercules may, among other remedies, declare due all unpaid principal amounts outstanding and any accrued but unpaid interest and foreclose on all collateral granted to Hercules as security under the Term Loans.

We believe we are in and expect to remain in compliance with the covenants and restrictions under the Term Loans as of the date of this Quarterly Report on Form 10-Q. If we fail to stay in compliance with our covenants or experience some other event of default, we may be forced to repay the outstanding principal on the Term Loans.
We have experienced recurring operating losses and as of December 31, 2016, had an accumulated deficit of $948.6 million. In addition, we have experienced recurring negative operating cash flows. At December 31, 2016, we had cash and cash equivalents of $25.1 million, as compared to cash used in operations of $10.5 million for the nine months ended December 31, 2016. We expect to use less cash for operations in the second half of fiscal 2016 compared to the first half. In April 2015, we completed an equity offering which raised net proceeds of $22.3 million after deducting underwriting discounts, commissions and offering expenses payable by us from the sale of 4.0 million shares of our common stock at a public offering price of $6.00 per share. On March 11, 2016, we sold 100% of our minority investment in Tres Amigas to an investor for $0.6 million. We received $0.3 million according to the terms of the purchase agreement upon closing, which was recorded as a gain during the three months ended March 31, 2016. The final $0.3 million, which was due upon the achievement of certain agreed-upon financing conditions, was received and recorded as a gain during the third quarter of fiscal 2016. In addition, in December 2015, we entered into a set of strategic agreements valued at approximately $210.0 million with Inox, as discussed above. These agreements are expected to provide a foundation for the business as we pursue our longer-term objectives.
We believe we have sufficient available liquidity to fund our operations, capital expenditures and scheduled cash payments under our debt obligations for the next twelve months. Our liquidity is highly dependent on our ability to increase revenues, control our operating costs, and our ability to maintain compliance with the covenants and restrictions on our debt obligations (or obtain waivers from our lender in the event of non-compliance), and our ability to raise additional capital, if necessary. On January 27, 2017, we entered into an ATM with FBR Capital Markets & Co., under which we may sell, at our discretion, up to $10.0 million in shares of our common stock at market prices prevailing at the time, or such other price as determined by us. There can be no assurance that we will be able to raise additional capital from either the ATM or other sources, or execute on any other means of improving our liquidity as described above.

Legal Proceedings

We are involved in legal and administrative proceedings and claims of various types. See Part II, Item 1, “Legal Proceedings,” for additional information. We record a liability in our consolidated financial statements for these matters when a loss is known or considered probable and the amount can be reasonably estimated. We review these estimates each accounting period as additional information is known and adjust the loss provision when appropriate. If a matter is both probable to result in liability and the amounts of loss can be reasonably estimated, we estimate and disclose the possible loss or range of loss to the extent necessary to make the consolidated financial statements not misleading. If the loss is not probable or cannot be reasonably estimated, a liability is not recorded in our consolidated financial statements.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined under SEC rules, such as relationships with unconsolidated entities or financial partnerships, which are often referred to as structured finance or special purpose entities, established for the purpose of facilitating transactions that are not required to be reflected on our balance sheet except as discussed below.
We occasionally enter into construction contracts that include a performance bond. As these contracts progress, we continually assess the probability of a payout from the performance bond. Should we determine that such a payout is probable, we would record a liability.
In addition, we have various contractual arrangements in which minimum quantities of goods or services have been committed to be purchased on an annual basis.

Recent Accounting Pronouncements

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

In July 2014, the FASB issued ASU 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period. To account for such awards, a reporting entity should apply existing guidance in FASB Accounting Standards Codification Topic 718, Compensation - Stock Compensation, as it relates to awards with performance conditions that affect vesting. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. We adopted ASU 2014-12 effective April 1, 2016 and conclude that there is no material impact on our current practices.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern. The new standard explicitly requires the assessment at interim and annual periods, and provides management with its own disclosure guidance. This ASU is effective for annual reporting periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. We expect to adopt ASU 2014-15 effective March 31, 2017 and are currently evaluating the impact, if any, the adoption of ASU 2014-15 may have on our current practices.

In April 2015, the FASB issued ASU 2015-03 Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in ASU 2015-03 require an entity to present debt issuance costs on the balance sheet as a direct deduction from the related debt liability as opposed to an asset. Amortization of the costs will continue to be reported as interest expense. We adopted ASU 2015-03 effective April 1, 2016 and conclude that there is no material impact on our consolidated results of operations, financial condition, or cash flow.

In June 2015, the FASB issued ASU 2015-10 Technical Corrections and Improvements. The amendments in ASU 2015-10 clarify and correct some of the difference that arose between original guidance from FASB, EITF and other sources, and the translation into the new Codification. We adopted ASU 2015-10 effective April 1, 2016 and conclude that there is no material impact on our consolidated results of operations, financial condition, or cash flow.

In July 2015, the FASB issued ASU 2015-11 Inventory (Topic 330): Simplifying the Measurement of Inventory. The amendments in ASU 2015-11 clarify the proper way to identify market value in the use of lower of cost or market value valuation method. As market value could be determined multiple ways under prior standards, it will now be considered as net realizable value. This ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. We expect to adopt ASU 2015-11 effective March 31, 2017 and are currently evaluating the impact, if any, the adoption of ASU 2015-11 may have on our current practices.

In September 2015, the FASB issued ASU 2015-16 Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The amendments in ASU 2015-16 require that an acquirer recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustment amounts are determined. We adopted ASU 2015-16 effective April 1, 2016 and conclude that there is no material impact on our consolidated results of operations, financial condition, or cash flow.

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

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently evaluating the effects adoption of this guidance will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08 Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments in ASU 2016-08 clarify the implementation guidance on principal versus agent consideration. The ASU is effective for annual reporting periods beginning after December 15, 2017. We are currently evaluating the impact, if any, the adoption of ASU 2016-08 may have on our current practices.

In March 2016, the FASB issued ASU 2016-09 Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in ASU 2016-09 will simplify several aspects of the accounting for share-based payment transactions, including tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods. We expect to adopt ASU 2016-09 effective March 31, 2017 and are currently evaluating the impact, if any, the adoption of ASU 2016-09 may have on our current practices.

In April 2016, the FASB issued ASU 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments in ASU 2016-10 will clarify the identification of performance obligations and the licensing implementation guidance. The ASU is effective for annual reporting periods beginning after December 15, 2017. We are currently evaluating the impact, if any, the adoption of ASU 2016-10 may have on our current practices.

In April 2016, the FASB issued ASU 2016-12 Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The amendments in ASU 2016-12 will clarify the prior guidance surrounding collectability criteria, presentation of taxes collected, non-cash consideration, contract modifications, completed contracts at completion and retrospective application guidance. The ASU is effective for annual reporting periods beginning after December 15, 2017. We are currently evaluating the impact the adoption of ASU 2016-12 may have on our current practices.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in ASU 2016-13 will provide more decision useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The ASU is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that year. We are currently evaluating the impact, if any, the adoption of ASU 2016-13 may have on our current practices.

In August 2016, the FASB issued ASU 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments in ASU 2016-15 will provide more guidance towards the classification of multiple different types of cash flows in order to reduce the diversity in reporting across entities. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that year. We are currently evaluating the impact, if any, the adoption of ASU 2016-15 may have on our current practices.

In October 2016, the FASB issued ASU 2016-16—Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The amendments in ASU 2016-16 will improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that year. We are currently evaluating the impact, if any, the adoption of ASU 2016-16 may have on our current practices.

In November 2016, the FASB issued ASU 2016-18—Statement of Cash Flows (Topic 230): Restricted Cash. The amendments in ASU 2016-18 will explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that year. We are currently evaluating the impact, if any, the adoption of ASU 2016-18 may have on our current practices.

In December 2016, the FASB issued ASU 2016-19—Technical Corrections and Improvements. The amendments in ASU 2016-19 will improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that year. We are currently evaluating the impact, if any, the adoption of ASU 2016-19 may have on our current practices.

In December 2016, the FASB issued ASU 2016-20—Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. The amendments in ASU 2016-20 will clarify the codification and correct unintended application of guidance. These items generally are not expected to have a significant effect on current accounting practice or create a significant administrative cost for most entities. The ASU is effective for annual reporting periods beginning after December 15, 2017. We are currently evaluating the impact the adoption of ASU 2014-09 may have on our current practices.

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

31

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Cash and cash equivalents

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

Foreign currency exchange risk

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

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

The impact of foreign currency transaction and translation activities on net loss for the three and nine months ended December 31, 2016 were gains of $0.9 million and $0.5 million, respectively. The impact of foreign currency transaction and translation activities on net loss for the three and nine months ended December 31, 2015 were losses of less than $0.1 million and $1.0 million, respectively.

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, 2016. 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, 2016, 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, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On September 13, 2011, we commenced a series of legal actions in China against Sinovel. Our Chinese subsidiary, Suzhou AMSC Superconductor Co. Ltd., filed a claim for arbitration with the Beijing Arbitration Commission in accordance with the terms of our supply contracts with Sinovel. The case is captioned (2011) Jing Zhong An Zi No. 0963. On March 31, 2011, Sinovel refused to accept contracted shipments of 1.5 MW and 3 MW wind turbine core electrical components and spare parts that we were prepared to deliver. We allege that these actions constitute material breaches of our contracts because Sinovel did not give us notice that it intended to delay deliveries as required under the contracts. Moreover, we allege that Sinovel has refused to pay past due amounts for prior shipments of core electrical components and spare parts. We are seeking compensation for past product shipments and retention (including interest) in the amount of approximately RMB 485 million (approximately $73 million) due to Sinovel's breaches of our contracts. We are also seeking specific performance of our existing contracts as well as reimbursement of all costs and reasonable expenses with respect to the arbitration. The value of the undelivered components under the existing contracts, including the deliveries refused by Sinovel in March 2011, amounts to approximately RMB 4.6 billion (approximately $690 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 claims, among other things, that the goods supplied by us do not conform to the standards specified in the contracts and claims damages in the amount of approximately RMB 370 million (approximately $56 million). On October 17, 2011, Sinovel filed with the Beijing Arbitration Commission a request for change of counterclaim to increase its damage claim to approximately RMB 1 billion (approximately $150 million). On December 22, 2011, Sinovel filed with the Beijing Arbitration Commission an additional request for change of counterclaim to increase its damages claim to approximately RMB 1.2 billion (approximately $180 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 claims, among other things, that the goods supplied by us do not conform to the standards specified in the contracts and claims damages in the amount of approximately RMB 105 million (approximately $16 million). We believe that Sinovel's claims are without merit and we intend to defend these actions vigorously. Since the proceedings in this matter are still in the early technical review phase, we cannot reasonably estimate possible losses or range of losses at this time.

We also submitted a civil action application to the Beijing No. 1 Intermediate People's Court under the caption (2011) Yi Zhong Min Chu Zi No. 15524, against Sinovel for software copyright infringement on September 13, 2011. The application alleges Sinovel's unauthorized use of portions of our wind turbine control software source code developed for Sinovel's 1.5MW wind turbines and the binary code, or upper layer, of our software for the PM3000 power converters in 1.5MW wind turbines. In July 2011, a former employee of our Austrian subsidiary was arrested in Austria on charges of economic espionage and fraudulent manipulation of data. In September 2011, the former employee pled guilty to the charges, and was imprisoned. As a result of our internal investigation and a criminal investigation conducted by Austrian authorities, we believe that this former employee was contracted by Sinovel through an intermediary while employed by us and improperly obtained and transferred to Sinovel portions of our wind turbine control software source code developed for Sinovel's 1.5MW wind turbines. Moreover, we believe the former employee illegally used source code to develop for Sinovel a software modification to circumvent the encryption and remove technical protection measures on the PM3000 power converters in 1.5MW wind turbines in the field. We are seeking a cease and desist order with respect to the unauthorized copying, installation and use of our software, monetary damages of approximately RMB 38 million (approximately $6 million) for our economic losses and reimbursement of all costs and reasonable expenses. The Beijing No. 1 Intermediate People's Court accepted the case, which was necessary in order for the case to proceed. On September 15, 2014, the Beijing No. 1 Intermediate People's Court held its first substantive hearing in the Beijing case. At the hearing, the parties presented evidence, reviewed claims, and answered questions from the court. On April 24, 2015, we received notification from the Beijing No. 1 Intermediate People's Court that it dismissed the case for what it cited was a lack of evidence. On May

6, 2015, we filed an appeal of the Beijing No. 1 Intermediate People's Court decision to dismiss the case with the Beijing Higher People's Court. On September 8, 2015, the Beijing Higher People's Court held its first substantive hearing on our appeal of the Beijing No. 1 Intermediate People's Court's dismissal of the case. At the hearing, the parties presented evidence and answered questions from the court. We are awaiting a decision from the Beijing Higher People's Court.

We submitted a civil action application to the Beijing Higher People's Court against Sinovel and certain of its employees for trade secret infringement on September 13, 2011 under the caption (2011) Gao Min Chu Zi No. 4193. The application alleges the defendants' unauthorized use of portions of our wind turbine control software source code developed for Sinovel's 1.5MW wind turbines as described above with respect to the Copyright Action. We are seeking monetary damages of approximately RMB 2.9 billion (approximately $435 million) for the trade secret infringement as well as reimbursement of all costs and reasonable expenses. The Beijing Higher People's Court has accepted the case, which was necessary in order for the case to proceed. On December 22, 2011 the Beijing Higher People's Court transferred the case to the Beijing No. 1 Intermediate People's Court under the caption (2011) Gao Min Chu Zi No. 4193. On June 7, 2012, we received an Acceptance Notice from the Beijing No.1 Intermediate People's Court under the caption (2012) Yi Zhong Min Chu Zi No.6833. The Beijing No. 1 Intermediate Court held the first substantive hearing on May 11, 2015. On June 15, 2015, we submitted a request for the withdrawal of our complaint to the Beijing No. 1 Intermediate Court. On June 16, 2015, the Beijing No. 1 Intermediate Court granted our request. We immediately filed a civil action application to the Beijing Intellectual Property Court against the same parties and seeking the same amount of monetary damages for trade secret infringement on June 16, 2015 under the caption (2015) Jin Zhi Min Chu Zi No. 1135. On January 18, 2016, the Beijing Intellectual Property Court held its first substantive hearing on our trade secret infringement case. At the hearing, the parties presented evidence, reviewed claims and answered questions from the court. We are awaiting a decision from the Beijing Intellectual Property Court.

On September 16, 2011, we filed a civil copyright infringement complaint in the Hainan Province No. 1 Intermediate People's Court against Dalian Guotong Electric Co. Ltd. ("Guotong"), a supplier of power converter products to Sinovel, and Huaneng Hainan Power, Inc. ("Huaneng"), a wind farm operator that has purchased Sinovel wind turbines containing Guotong power converter products. The case is captioned (2011) Hainan Yi Zhong Min Chu Zi No. 62. The application alleges that our PM1000 converters in certain Sinovel wind turbines have been replaced by converters produced by Guotong. Because the Guotong converters are being used in wind turbines containing our wind turbine control software, we believe that our copyrighted software is being infringed. We are seeking a cease and desist order with respect to the unauthorized use of our software, monetary damages of approximately RMB 1.2 million (approximately $0.2 million) for our economic losses (with respect to Guotong only) and reimbursement of all costs and reasonable expenses. The court has accepted the case, which was necessary in order for the case to proceed. In addition, upon the request of the defendant Huaneng, Sinovel has been added by the court to this case as a defendant and Huaneng has been released from this case. On November 18, 2014, the Hainan No. 1 Intermediate People's Court held its first substantive hearing in the Hainan case. At the hearing, the parties presented evidence, reviewed claims, and answered questions from the court. On June 3, 2015, we received notification from the Hainan No. 1 Intermediate People's Court that it dismissed the case for what it cited was a lack of evidence. On June 18, 2015 we filed an appeal of the Hainan No. 1 Intermediate People's Court decision to dismiss the case with the Hainan Higher People's Court. On August 20, 2015, the Hainan Higher People's Court accepted the appeal under the caption (2015) QiongZhi Min Zhong Zi No. 6. On November 26, 2015, the Hainan Higher People's Court held its first substantive hearing on our appeal of the Hainan No. 1 Intermediate People's Court's dismissal of the case. On August 17, 2016, we received notification from the Hainan Higher People's Court that it dismissed the case for what it cited was a lack of evidence. We intend to file an appeal of the Hainan Higher People's Court's decision with China's Supreme People's Court. China's Supreme People's Court has discretion to decide whether to hear the appeal.

ITEM 1A. RISK FACTORS

None

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

See the Exhibit Index on the page immediately preceding the exhibits for a list of exhibits filed as part of this Quarterly Report on Form 10-Q, which Exhibit Index is incorporated herein by this reference.

SIGNATURE

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

AMERICAN SUPERCONDUCTOR CORPORATION

Date:	February 6, 2017	By:	/s/David A. Henry
			David A. Henry
			Executive Vice President and Chief Financial Officer
			(Principal Financial and Accounting Officer)

35

EXHIBIT INDEX

		Incorporated by Reference				
Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed/Furnished Herewith
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 Rule13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					**
32.2	Chief Financial Officer—Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					**
101.INS	XBRL Instance Document.***					
101.SCH	XBRL Taxonomy Extension Schema Document. ***					
101.CAL	XBRL Taxonomy Calculation Linkbase Document. ***					
101.DEF	XBRL Definition Linkbase Document. ***					
101.LAB	XBRL Taxonomy Label Linkbase Document. ***					
101.PRE	XBRL Taxonomy Presentation Linkbase Document. ***					

*Filed herewith
**Furnished herewith
***Submitted electronically herewith

Attached as Exhibits 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheet as of December 31, 2016 and March 31, 2016 (ii) Condensed Statements of Operations and Income for the three and nine months ended December 31, 2016 and 2015, (iii) Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and nine months ended December 31, 2016 and 2015, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2016 and 2015, and (v) Notes to Condensed Consolidated Financial Statements.