AMERICAN SUPERCONDUCTOR CORP /DE/
Form 10-Q
February 06, 2014

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, 2013

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

Commission File Number: 0-19672

American Superconductor Corporation

(Exact name of registrant as specified in its charter)

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

(978) 842-3000

(Registrant’s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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	68,139,646
Class	Outstanding as of February 3, 2014

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2013	March 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 35,394	$39,243
Accounts receivable, net	8,525	18,864
Inventory	25,167	33,473
Prepaid expenses and other current assets	19,538	22,469
Restricted cash	1,405	6,136
Total current assets	90,029	120,185
Property, plant and equipment, net	67,163	74,626
Intangibles, net	2,147	2,749
Restricted cash	4,901	4,820
Deferred tax assets	5,421	5,354
Other assets	8,710	9,020
Total assets	$ 178,371	$216,754
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 23,503	$30,138
Note payable, current portion, net of discount of $677 as of December 31, 2013 and $458 as of March 31, 2013	6,272	4,158
Convertible note, current portion, net of discount of $1,287 as of December 31, 2013 and $4,289 as of March 31, 2013	9,125	4,610
Derivative liability	2,587	4,162
Adverse purchase commitments	429	1,440
Deferred revenue	10,023	29,805
Deferred tax liabilities	5,440	5,444
Total current liabilities	57,379	79,757
	7,283	3,367

Note payable, net of discount of $384 as of December 31, 2013 and $95 as of March 31, 2013		
Convertible note, net of discount of $600 as of March 31, 2013	-	5,881
Deferred revenue	1,318	1,340
Other liabilities	1,179	1,291
Total liabilities	67,159	91,636
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock	673	603
Additional paid-in capital	942,466	923,847
Treasury stock	(370)	(313)
Accumulated other comprehensive income	2,127	1,112
Accumulated deficit	(833,684)	(800,131)
Total stockholders' equity	111,212	125,118
Total liabilities and stockholders' equity	$ 178,371	$216,754

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

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three months ended December 31,		Nine months ended December 31,	
	2013	2012	2013	2012
Revenues	$20,563	$17,417	$67,830	$67,000
Cost and operating expenses:				
Cost of revenues	15,863	16,533	56,461	53,843
Research and development	2,951	3,948	9,061	11,480
Selling, general and administrative	8,232	10,769	27,741	36,304
Restructuring and impairments	108	6,702	872	6,845
Amortization of acquisition related intangibles	84	81	247	242
Total cost and operating expenses	27,238	38,033	94,382	108,714
Operating loss	(6,675)	(20,616)	(26,552)	(41,714)
Change in fair value of derivatives and warrants	535	5,217	1,890	6,114
Interest expense, net	(1,634)	(4,553)	(7,250)	(10,191)
Other expense, net	(341)	(109)	(908)	(1,252)
Loss before income tax (benefit) expense	(8,115)	(20,061)	(32,820)	(47,043)
Income tax (benefit) expense	302	74	733	(683)
Net loss	$(8,417)	$(20,135)	$(33,553)	$(46,360)
Net loss per common share				
Basic	$(0.14)	$(0.38)	$(0.55)	$(0.89)
Diluted	$(0.14)	$(0.38)	$(0.55)	$(0.89)
Weighted average number of common shares outstanding				
Basic	62,309	52,792	60,578	51,966
Diluted	62,309	52,792	60,578	51,966

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

AMERICAN SUPERCONDUCTOR CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(In thousands)

	Three months ended December 31,		Nine months ended December 31,	
	2013	2012	2013	2012
Net loss	$ (8,417)	$ (20,135)	$ (33,553)	$ (46,360)
Other comprehensive (loss) income, net of tax:				
Foreign currency translation (losses) gains	358	521	1,015	(206)
Unrealized losses on investments	-	(8)	-	(9)
Total other comprehensive (loss) income, net of tax	358	513	1,015	(215)
Comprehensive loss	$ (8,059)	$ (19,622)	$ (32,538)	$ (46,575)

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,	
	2013	2012
Cash flows from operating activities:		
Net loss	$ (33,553)	$ (46,360)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	8,052	10,143
Stock-based compensation expense	7,328	5,968
Restructuring charges, net of payments	167	261
Impairment of long-lived and intangible assets	-	4,507
Provision for excess and obsolete inventory	287	957
Adverse purchase commitment losses (recoveries), net	-	(8,428)
Loss on minority interest investments	789	1,914
Change in fair value of derivatives and warrants	(1,890)	(6,114)
Non-cash interest expense	5,902	8,404
Other non-cash items	1,181	1,790
Changes in operating asset and liability accounts:		
Accounts receivable	10,414	6,085
Inventory	8,682	(8,173)
Prepaid expenses and other current assets	3,462	4,699
Accounts payable and accrued expenses	(8,612)	(20,330)
Deferred revenue	(20,575)	3,986
Net cash used in operating activities	(18,366)	(40,691)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(223)	(1,259)
Proceeds from the sale of property, plant and equipment	60	-
Proceeds from the maturity of marketable securities	-	5,297
Change in restricted cash	4,670	653
Change in other assets	(109)	-
Net cash provided by investing activities	4,398	4,691
Cash flows from financing activities:		
Employee taxes paid related to net settlement of equity awards	(57)	(42)
Proceeds from the issuance of debt, net of expenses	9,838	32,895
Repayment of debt	(3,462)	(769)
Proceeds from public equity offering, net	3,332	-
Proceeds from exercise of employee stock options and ESPP	99	178
Net cash provided by financing activities	9,750	32,262
	369	(84)

Effect of exchange rate changes on cash and cash equivalents		
Net decrease in cash and cash equivalents	(3,849)	(3,822)
Cash and cash equivalents at beginning of year	39,243	46,279
Cash and cash equivalents at end of year	$ 35,394	$ 42,457
Supplemental schedule of cash flow information:		
Cash paid for income taxes, net of refunds	$ -	$ (704)
Issuance of common stock to settle liabilities	7,931	10,406
Cash paid for interest	599	543

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, 2013 and 2012 and the financial position at December 31, 2013.

Liquidity

The Company has experienced recurring operating losses and as of December 31, 2013, the Company had an accumulated deficit of $833.7 million. In addition, the Company has experienced recurring negative operating cash flows, which has resulted in a decrease in its cash balance. These factors raise substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of this uncertainty. At December 31, 2013, the Company had cash and cash equivalents of $35.4 million. Cash used in operations for the nine months ended December 31, 2013 was $18.4 million.

The Company expects that its cost reduction efforts undertaken to date will result in a reduction of cash used for operations during the fiscal year ending March 31, 2014, compared to the prior year. In July 2013, the Company reduced its workforce by approximately 7% and recorded restructuring charges for severance and other costs of approximately $0.1 million and $0.9 million during the three and nine months ended December 31, 2013, respectively. The Company plans to closely monitor its expenses and, if required, expects to further reduce operating costs and capital spending to enhance liquidity.

On April 4, 2012, the Company completed a private placement of $25.0 million aggregate principal amount of a 7% senior unsecured convertible note (the "Initial Note"). On December 20, 2012, the Company agreed to exchange the Initial Note for a new unsecured, senior convertible note (the "Exchanged Note"), which had the same principal amount and accrued interest as the Initial Note at the time of the exchange. (See Note 10, "Debt", for further information regarding these debt arrangements, including the covenants, restrictions and events of default under the agreements.)

On June 5, 2012, the Company entered into a Loan and Security Agreement (the “Term Loan”), under which the Company borrowed $10.0 million. The Term Loan contains certain covenants and restrictions including, among others, a requirement to maintain a minimum unrestricted cash balance in the U.S. equal to the remaining principal balance. On November 15, 2013, the Company entered into an amendment of the Term Loan (the “New Term Loan”), under which the Company borrowed an additional $10.0 million. The New Term Loan contains covenants and restrictions similar to the existing Term Loan. (See Note 10, “Debt”, for further information regarding these debt arrangements, including the covenants, restrictions and events of default under the agreements.) The Company believes that it is in compliance with the covenants and restrictions included in the agreements governing these debt arrangements as of the date of this Quarterly Report on Form 10-Q.

On November 15, 2013, the Company entered into an At Market Sales Arrangement ("ATM") under which the Company may, at its discretion, sell up to $30.0 million of shares of its common stock (before expenses) through its sales agent, MLV & Co. LLC. During the three months ended December 31, 2013, the Company received net proceeds of $3.3 million from sales of common stock under the ATM. (See Note 12, "Stockholders' Equity", for further information regarding the ATM.)

In order for the Company to continue operations beyond the next twelve months and be able to discharge its liabilities and commitments in the normal course of business, the Company needs to increase sales through executing its strategy to broaden its customer base, enter new markets, and commercialize its superconductor product line. Otherwise, the Company may need to further reduce operating expenses in line with business conditions in order to decrease the amount of cash used in operations. The Company intends to work with the holder of its convertible note in order to maintain the ability to make monthly amortization payments on the convertible note in shares of common stock. In addition, the Company is actively seeking to sell its minority investments in Tres Amigas and Blade Dynamics and has engaged a financial advisor to assist with that effort. (See Note 14, "Minority Investments", for further information about such investments.) There can be no assurance that the Company will be able to sell one or both of these investments on commercially reasonable terms or at all. In addition, the Company maintains the ability to sell shares of common stock under the ATM at its discretion to enhance liquidity.

The Company must successfully execute on its plans to improve operating performance discussed above, raise additional capital either through the sale of one or both of its minority investments, or through the sale of shares of its common stock at its discretion under the ATM, and maintain the ability to pay monthly installment payments under the Exchanged Note in shares of common stock to ensure it has sufficient cash to fund its operations, capital expenditures and scheduled cash payments under its debt obligations through December 31, 2014. The Company's ability to pay required monthly installment payments under the Exchanged Note in equity instead of cash is based on certain stock price and trading volume conditions that are outside of the Company's control. If one or both of these equity conditions are not met (absent a waiver from the lender), the Company may be required to make required monthly installment payments in cash. As of the filing date of this Form 10-Q, the Company has only made payments to the lender in shares of common stock and as a result, the principal balance has been reduced by $14.6 million through December 31, 2013. If the Company fails one or both of the equity conditions, the Company can still make required payments in its common stock with a waiver from the lender, which has been provided in the past. There is no assurance that the lender will provide any waivers in the future. The Company's liquidity is highly dependent on the factors discussed above, and its ability to maintain compliance with the covenants and restrictions on its debt obligations (or obtain waivers from our lenders in the event of non-compliance). There can be no assurance that the Company will be able to raise additional capital or be able to sell one or both of its minority investments on commercially reasonable terms or at all.

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

2. Stock-Based Compensation

The Company accounts for its stock-based compensation at fair value. The following table summarizes stock-based compensation expense by financial statement line item for the three and nine months ended December 31, 2013 and 2012 (in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2013	2012	2013	2012
Cost of revenues	$ 330	$ 135	$ 758	$ 518
Research and development	913	627	2,073	1,781
Selling, general and administrative	1,797	1,167	4,497	3,669
Total	$ 3,040	$ 1,929	$ 7,328	$ 5,968

During the nine months ended December 31, 2013, the Company granted approximately 831,000 stock options, 1,307,000 restricted stock awards, 362,000 shares of performance-based restricted stock awards and issued 212,000 shares of common stock in-lieu of cash bonuses and severance payments to employees under the 2007 Stock Incentive Plan. The shares issued in-lieu of cash bonuses vested immediately. The shares issued in lieu of severance vested on the eighth day after receipt of an irrevocable release. The options and restricted stock awards granted vest upon the passage of time, generally 3 years. For options and awards that vest upon the passage of time, expense is being recorded over the vesting period. Performance-based restricted stock awards are expensed over the requisite service period.

The estimated fair value of the Company's stock-based awards, less expected annual forfeitures, is amortized over the awards' service period. The total unrecognized compensation cost for unvested outstanding stock options was $2.6 million at December 31, 2013. This expense will be recognized over a weighted average expense period of approximately 1.8 years. The total unrecognized compensation cost for unvested outstanding restricted stock was $4.5 million at December 31, 2013. This expense will be recognized over a weighted-average expense period of approximately 0.7 years.

The weighted-average assumptions used in the Black-Scholes valuation model for stock options granted during the three and nine months ended December 31, 2013 and 2012 are as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2013	2012	2013	2012
Expected volatility	N/A	72.4 %	75.1 %	72.0 %
Risk-free interest rate	N/A	1.0 %	1.7 %	0.9 %
Expected life (years)	N/A	5.9	5.9	5.9
Dividend yield	N/A	None	None	None

The expected volatility rate was estimated based on an equal weighting of the historical volatility of the Company's common stock and the implied volatility of the Company's traded options. The expected term was estimated based on an analysis of the Company's historical experience of exercise, cancellation, and expiration patterns. The risk-free interest rate is based on the average of the five and seven year United States Treasury rates. There were no stock options granted during the three months ended December 31, 2013.

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, 2013, 10.1 million shares were not included in the calculation of diluted EPS as they were considered anti-dilutive, of which 3.2 million relate to unvested stock options, 3.5 million relate to the issuance of warrants, and 3.4 million shares relate to the convertible feature of the Company's Exchanged Note. For the three and nine months ended December 31, 2012, 11.8 million shares were not included in the calculation of diluted EPS as they were considered anti-dilutive, of which 2.9 million relate to unvested stock options, 3.2 million relate to the issue of warrants and 5.7 million shares related to the convertible feature of the Company's Exchanged Note.

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The following table reconciles the numerators and denominators of the earnings per share calculation for the three and nine months ended December 31, 2013 and 2012 (in thousands, except per share data):

	Three months ended December 31,		Nine months ended December 31,	
	2013	2012	2013	2012
Numerator:				
Net loss	$ (8,417)	$ (20,135)	$ (33,553)	$ (46,360)
Denominator:				
Weighted-average shares of common stock outstanding	64,442	53,745	62,256	52,558
Weighted-average shares subject to repurchase	(2,133)	(953)	(1,678)	(592)
Shares used in per-share calculation basic	62,309	52,792	60,578	51,966
Shares used in per-share calculation diluted	62,309	52,792	60,578	51,966
Net loss per share basic	$ (0.14)	$ (0.38)	$ (0.55)	$ (0.89)
Net loss per share diluted	$ (0.14)	$ (0.38)	$ (0.55)	$ (0.89)

4. Fair Value Measurements

In January 2010, the Financial Accounting Standards Board ("FASB") issued guidance related to disclosures of fair value measurements. The guidance requires gross presentation of activity within the Level 3 measurement roll-forward and details of transfers in and out of Level 1 and 2 measurements. It also clarifies two existing disclosure requirements on the level of disaggregation of fair value measurements and disclosures on inputs and valuation techniques. A change in the hierarchy of an investment from its current level will be reflected in the period during which the pricing methodology of such investment changes. Disclosure of the transfer of securities from Level 1 to Level 2 or Level 3 will be made in the event that the related security is significant to total cash and investments. The Company did not have any transfers of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value measurement hierarchy during the three months ended December 31, 2013.

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

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

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

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

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

The following table provides the assets carried at fair value, measured as of December 31, 2013 and March 31, 2013 (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, 2013:				
Assets:				
Cash equivalents	$ 12,671	$ 12,671	$ -	$ -
Liabilities:				
Derivative liability	$ -	$ -	$ -	$ -
Warrants	2,587	-	-	2,587

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	Total Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2013:				
Assets:				
Cash equivalents	$ 18,649	$ 18,649	$ -	$ -
Liabilities:				
Derivative liability	$ 529	$ -	$ -	$ 529
Warrants	3,633	-	-	3,633

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

	Derivative Liability	Warrants
April 1, 2012		
Valuation of original derivative liability	$ 3,779	$ -
Warrant issuance with Senior Convertible Note	-	7,018
Warrant issuance with Senior Secured Term Loan	-	380
Valuation of derivative liability attributable to modification	542	-
Mark to market adjustment	(3,297)	(2,817)
Balance at December 31, 2012	$ 1,024	$ 4,581
Mark to market adjustment	(495)	(948)
Balance at March 31, 2013	$ 529	$ 3,633

	Derivative Liability	Warrants
April 1, 2013	$ 529	$ 3,633
Warrant issuance with Senior Secured Term Loan	-	315
Mark to market adjustment	(529)	(1,361)
Balance at December 31, 2013	$ -	$ 2,587

Valuation Techniques

Cash Equivalents

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

Derivative Liability

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

Warrants

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

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

5. Accounts Receivable

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

	December 31, 2013	March 31, 2013
Accounts receivable (billed)	$ 7,551	$ 17,222
Accounts receivable (unbilled)	990	1,642
Less: Allowance for doubtful accounts	(16)	-
Accounts receivable, net	$ 8,525	$ 18,864

6. Inventory

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

	December 31, 2013	March 31, 2013
Raw materials	$ 6,532	$ 5,966
Work-in-process	2,706	3,427
Finished goods	12,888	21,655
Deferred program costs	3,041	2,425
Net inventory	$ 25,167	$ 33,473

The Company recorded inventory write-downs of $0.1 million and $0.5 million for the three months ended December 31, 2013 and 2012, respectively. The Company recorded inventory write-downs of $0.3 million and $1.0 million for the nine months ended December 31, 2013 and 2012, respectively. These write downs were based on evaluating its ending inventory on hand for excess quantities and obsolescence.

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

7. Accounts Payable and Accrued Expenses

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

	December 31, 2013	March 31, 2013
Accounts payable	$ 5,178	$ 7,146
Accrued miscellaneous expenses	6,024	9,142
Accrued outside services	4,167	2,251
Accrued subcontractor program costs	290	2,442
Accrued compensation	4,369	6,315
Income taxes payable	148	133
Accrued warranty	3,327	2,709
Total	$ 23,503	$ 30,138

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

Product warranty activity was as follows (in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2013	2012	2013	2012
Balance at beginning of period	$3,069	$4,792	$2,709	$5,896
Change in accruals for warranties during the period	273	(627)	767	(1,178)
Settlements during the period	(15)	(147)	(149)	(700)
Balance at end of period	$3,327	$4,018	$3,327	$4,018

8. Income Taxes

For the three and nine months ended December 31, 2013, the Company recorded income tax expense of $0.3 million and $0.7 million, respectively. For the three and nine months ended December 31, 2012, the Company recorded income tax expense of $0.1 million and an income tax benefit of $0.7 million, respectively. For the three months ended December 31, 2013 and 2012, respectively, income tax expense was primarily due to income taxes in the Company's foreign jurisdictions. In addition, income tax expense for the nine months ended December 31, 2013 included withholding taxes for repatriation of funds from certain foreign jurisdictions. The income tax benefit for the nine months ended December 31, 2012, was primarily due to a refund of Chinese income taxes of $0.9 million.

9. Restructuring

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

During the years ended March 31, 2013 and March 31, 2012, the Company undertook restructuring activities, approved by the Board of Directors, in order to reorganize its global operations, streamline various functions of the business, and reduce its global workforce to better reflect the demand for its products. The Company undertook an additional workforce reduction in July 2013, reducing its workforce by approximately 7%, impacting primarily selling, engineering and general and administrative functions. The Company recorded restructuring charges for severance and other costs of approximately $0.1 million and $0.9 million during the three and nine months ended December 31, 2013. From April 1, 2011 through December 31, 2013, these activities resulted in a substantial reduction of its global workforce. During the three and nine months ended December 31, 2012, the Company incurred restructuring costs of $6.7 million and $6.8 million, respectively. The costs related to the Company's restructuring activities have been paid as of December 31, 2013.

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

Nine months ended December 31, 2013	Severance pay and benefits	Facility exit costs	Total
Accrued restructuring balance at April 1, 2013	$ 145	$ 54	$ 199
Charges to operations	849	23	872
Cash payments	(821)	(37)	(858)
Other adjustments	(173)	(40)	(213)
Accrued restructuring balance at December 31, 2013	$ -	$ -	$ -
Nine months ended December 31, 2012			
Accrued restructuring balance at April 1, 2012	$ 680	$ 294	$ 974
Charges to operations	2,377	(39)	2,338
Cash payments	(1,673)	(255)	(1,928)
Accrued restructuring balance at December 31, 2012	$ 1,384	$ -	$ 1,384

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

10. Debt

Senior Convertible Note

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

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

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

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

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

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

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

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

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

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

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

The Company assessed the changes in the Exchanged Note and accounted for it as a modification of the Initial Note. Therefore, the Company determined the incremental value of the derivative instruments, as a result of the Exchanged Note having a reduced conversion price. As a result of the re-valuation, the Company recorded a $0.5 million increase in the value of the derivative liability and additional debt discount. At the modification date, the value of the derivative liability was $1.5 million. The total debt discount, including the embedded derivatives in the Initial Note, the incremental value of embedded derivatives in the Exchanged Note, warrant and legal and origination costs of $13.1 million is being amortized into interest expense over the term of the Exchanged Note using the effective interest method. Under this method, interest expense is recognized each period until the debt instruments reach maturity. If the maturity of the Exchanged Note is accelerated because of prepayment, then the amortization will be accelerated.

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

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

CVI waived its rights under the Amended Purchase Agreement to participate in (i) specific types of offerings that may be conducted by the Company with respect to the Company's currently effective Registration Statement on Form S-3 (Registration No. 333-191153), and (ii) the issuance of shares of common stock in connection with any settlement of currently outstanding litigation involving the Company;
the Company and CVI amended the Exchanged Note:
to increase the period during which CVI is allowed to accelerate payment in shares of common stock at the then current installment date conversion price from such installment date until the trading day before the next installment notice due date to the entire period from such installment date until the trading day before the next installment date;
to increase the aggregate outstanding principal amount under the definition of "permitted senior indebtedness" from $10.0 million to $15.0 million; and
the Company and CVI exchanged the warrant (the "Original Warrant") for a new warrant (the "Exchanged Warrant") with a reduced exercise price of $2.61 per share of common stock.

The Company assessed the changes to the Exchanged Note included in the Second Amendment and accounted for it as a modification of the Exchanged Note. Therefore, the Company determined the incremental value of the derivative instruments, as a result of the Second Amendment, specifically the Exchanged Warrant. See Note 11 "Warrants and Derivative Liabilities" for discussion of the valuation of the Exchanged Warrant.

During the three and nine months ended December 31, 2013, the Company recorded non-cash interest expense for amortization of the debt discount related to the Exchanged Note of $0.9 million and $3.6 million, respectively. During the three and nine months ended December 31, 2012, the Company recorded non-cash interest expense for amortization of the debt discount related to the Exchanged Note of $2.2 million and $6.4 million, respectively.

Provided certain equity conditions are met, the Company may elect to repay principal and interest in shares of the Company's common stock. If the Company elects to make a payment in shares of the Company's common stock, the number of shares to be issued is determined by dividing the amount of such payment by 85% of the lessor of the average volume-weighted average price ("VWAP") of the 10 consecutive days immediately preceding the payment date or the VWAP price on the day preceding the payment date (the "Market Price"). The Company records the difference between the closing price of its common stock on the day preceding the payment date and the Market Price as a discount on the fair value of its shares. During the three months ended December 31, 2013, the Company made no payments in stock. During the nine months ended December 31, 2013, the Company recorded $1.8 million of non-cash interest expense related to installment payments made by issuing the Company's common stock at a discount, compared to $1.5 million during the three and nine months ended December 31, 2012.

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

Senior Secured Term Loans

On June 5, 2012, the Company entered into a Term Loan with Hercules Technology Growth Capital, Inc. ("Hercules"), under which the Company borrowed $10.0 million. After the closing fees and expenses, the net proceeds to the Company were $9.7 million. The Term Loan bears an interest rate equal to 11% plus the percentage, if any, by which the prime rate as reported by The Wall Street Journal exceeds 3.75%. The Company made interest-only payments from July 1, 2012 through October 31, 2012, after which the Company began repaying the Term Loan in equal monthly installments ending on December 1, 2014. In addition, Hercules received a warrant (the "First Warrant") to purchase 139,276 shares of common stock, exercisable at an initial strike price of $3.59 per share, subject to adjustment, until December 5, 2017. Due to certain adjustment provisions within the warrant, it qualified for liability accounting and the fair value of $0.4 million was recorded upon issuance, which the Company recorded as a debt discount and a warrant liability. The Company will pay an end of term fee of $0.5 million upon the earlier of maturity or prepayment of the loan. The Company has accrued the term fee and recorded a corresponding amount into the debt discount. In addition, the Company incurred $0.3 million of legal and origination costs in the year ended March 31, 2013, which have been recorded as a debt discount. The total debt discount including the First Warrant, end of term fee and legal and origination costs of $1.2 million is being amortized into interest expense over the term of the Term Loan using the effective interest method. Under this method, interest expense is recognized each period until the debt instrument reaches maturity. During the three and nine months ended December 31, 2013, the Company recorded non-cash interest expense for amortization of the debt discount related to the Term Loan of $0.1 million and $0.4 million, respectively. During the three and nine months ended December 31, 2012, the Company recorded non-cash interest expense for amortization of the debt discount related to the Term Loan of $0.2 million and $0.5 million, respectively.

On November 15, 2013, the Company amended the Term Loan with Hercules and entered into a New Term Loan (collectively with the Term Loan, the "Term Loans"), borrowing an additional $10.0 million. After closing fees and expenses, the net proceeds to the Company for the New Term Loan were $9.8 million. The New Term Loan also bears the same interest rate as the Term Loan. The Company is making interest-only payments from December 1, 2013 to May 31, 2014. If the Company achieves certain revenue targets for the six-month period ending March 31, 2014, interest only payments will continue through August 31, 2014. Once the interest-only period ends, the Company will repay the New Term Loan in equal monthly installments ending on November 1, 2016. Hercules received a warrant (the "Second Warrant") to purchase 256,410 shares of common stock, exercisable at an initial strike price of $1.95 per share, subject to adjustment, until May 15, 2019. In addition, the exercise price of the First Warrant was reduced to $1.95 per share. (See Note 11, "Warrants and Derivative Liabilities," for a discussion on both warrants and the valuation assumptions used.) The Company will pay an end of term fee of $0.5 million upon the earlier of maturity or prepayment of the New Term Loan. The Company has accrued the end of term fee and recorded a corresponding amount into the debt discount. The New Term Loan includes a mandatory prepayment feature which allows Hercules the right to use any of the Company's net proceeds from specified asset dispositions greater than $1.0 million in a calendar year to pay off any outstanding accrued interest and principal balance on the New Term Loan. The Company determined the fair value to be de-minimis for this feature. In addition, the Company incurred $0.2 million of legal and origination costs in the three months ended December 31, 2013, which have been recorded as a debt discount. The total debt discount including the Second Warrant, end of term fee and legal and origination costs of $1.0 million is being amortized into interest expense over the term of the New Term Loan using the effective interest method. If the maturity of either of the term loans is accelerated because of prepayment, then the amortization will be accelerated. During the three months ended December 31, 2013, the Company recorded non-cash interest expense for amortization of the debt discount related to the New Term Loan of $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 guaranties or grant liens on its assets, make certain loans, advances or investments, declare dividends or make distributions or enter into transactions with affiliates. In addition, there is a covenant that requires the Company to maintain a minimum unrestricted cash balance in the United States of at least $15.0 million at the inception of the New Term Loan. This amount will be reduced by $2.5 million for every $5.0 million of net proceeds from the sale of its common stock after November 15, 2013, including those under the ATM, to an amount not lower than $7.5 million or the outstanding combined principal balances of the Term Loans, whichever is lower. 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.

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

Interest expense on the Exchanged Note and Term Loans for the three and nine months ended December 31, 2013 was $1.6 million and $7.2 million, respectively, which included $1.1 million and $5.9 million, respectively, of non-cash interest expense related to the amortization of the debt discount on the Exchanged Note and Term Loans and payment of the Exchanged Note in Company common stock at a discount. Interest expense on the Exchanged Note and Term Loan for the three and nine months ended December 31, 2012 was $4.6 million, and $10.3 million, respectively, which included $3.9 million and $8.4 million, of non-cash interest expense related to the amortization of the debt discount on the Exchanged Note and Term Loan, respectively.

11. Warrants and Derivative Liabilities

Senior Convertible Note Warrant

On April 4, 2012, the Company entered into the Purchase Agreement for the Initial Note and on December 20, 2012, the Company entered into the First Amendment pursuant to which it exchanged the Initial Note for the Exchanged Note (See Note 10, "Debt" for further discussion). The Initial Note included a warrant to purchase 3,094,060 shares of the Company's common stock. The warrant is exercisable at any time on or after the date that is six months after the issuance of the warrant and entitles CVI to purchase shares of the Company's common stock for a period of five years from the initial date the warrant becomes exercisable at a price equal to $5.45 per share, subject to certain price-based and other anti-dilution adjustments. On October 9, 2013, the Company entered into the Second Amendment with CVI. Pursuant to the Second Amendment, the Company exchanged the Original Warrant for the Exchanged Warrant, with a reduced exercise price of $2.61 per share of common stock. Other than the reduced exercise price, the Exchanged Warrant has the same terms and conditions as the Original Warrant. The Company recorded a charge of approximately $1.0 million for the increase in fair value of the Exchanged Warrant resulting from the Second Amendment on the warrant liability during the three months ending December 31, 2013. As a result of the sales of common stock under the ATM (See Note 12, "Stockholders' Equity", for further discussion of the ATM) during the three months ended December 31, 2013, the exercise price of the Exchanged Warrant was reduced to $2.59 per share. 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 derivative liabilities, (See Note 10, "Debt" for further discussion), and warrants utilizing an integrated lattice model. The lattice model is an option pricing model that involves the construction of a binomial tree to show the different paths that the underlying asset may take over the option's life. A lattice model can take into account expected changes in various parameters such as volatility over the life of the options, providing more accurate estimates of option prices than the Black-Scholes model.

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

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

Fiscal Year 13	December 31, 2013	Post-modification October 9, 2013	Pre-modification October 9, 2013	September 30, 2013	June 30, 2013
Risk-free interest rate	1.17 %	1.05 %	1.05 %	1.02 %	1.13 %
Expected annual dividend yield	— %	— %	— %	— %	— %
Expected volatility	75.6 %	71.5 %	71.5 %	72.0 %	71.9 %
Term (years)	3.76	3.99	3.99	4.01	4.27
Fair value	$2.2 million	$ 3.2 million	$ 2.2 million	$2.5 million	$ 3.0 million

Fiscal Year 12	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	April 4, 2012
Risk-free interest rate	0.67 %	0.75 %	0.63 %	0.77 %	1.19 %
Expected annual dividend yield	— %	— %	— %	— %	— %
Expected volatility	71.7 %	80.6 %	80.9 %	80.8 %	80.0 %
Term (years)	4.51	4.76	5.01	5.28	5.50
Fair value	$3.4 million	$ 4.4 million	$ 7.1 million	$8.6 million	$ 7.0 million

The Company recorded a net gain, resulting from the decrease in the fair value of the Exchanged Warrant, including the impact of the modification, of $0.3 million and $1.2 million to change in fair value of derivatives and warrants in the three and nine months ended December 31, 2013, respectively. The Company recorded net gains of $2.7 million and $2.6 million in the three and nine months ended December 31, 2012, respectively.

Senior Convertible Note Derivative Liability

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

The terms of the December 2012 debt modification with CVI reduced the conversion price of the Initial Note from $4.85 per share to $3.19 per share in the Exchanged Note. As a result the Company revalued these derivatives pre- and post-modification and recorded the difference of $0.5 million as a debt discount and a derivative liability. (See Note 10, “Debt,” for further discussion.) As a result of the sales of common stock under the ATM (See Note 12, “Stockholders’ Equity”, for further discussion of the ATM) during the three months ended December 31, 2013, the conversion price of the Exchanged Note was reduced to $3.15 per share.

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

Fiscal Year 13	December 31, 2013		September 30, 2013		June 30, 2013	
Principal outstanding (000's)	$ 10,411		$ 10,411		$ 14,389	
Stock price	$ 1.64		$ 2.34		$ 2.64	
Percentage volume condition met	87.2	%	80.2	%	87.5	%
Expected volatility	68.6	%	66.3	%	65.8	%
Risk free rate	0.12	%	0.10	%	0.21	%
Bond yield	16.5	%	15.5	%	16.7	%
Recovery rate	35.0	%	35.0	%	37.0	%
Redeemable	yes		yes		yes	
Total time (years)	0.75		1.00		1.26	
Dilution effect	yes		yes		yes	
Fair value	$	—	$ 0.2 million		$ 0.5 million	
Fair value as a percent of par	0.02	%	0.7	%	3.3	%

Fiscal Year 12	March 31, 2013		December 31, 2012		Post-modification December 20, 2012		Pre-modification December 20, 2012		September 30, 2012		June 30, 2012		April 4, 2012	
Principal outstanding (000's)	$ 15,380		$ 20,944		$ 20,944		$ 24,074		$ 24,074		$ 25,000		$ 25,000	
Stock price	$ 2.67		$ 2.62		$ 2.95		$ 2.95		$ 4.15		$ 4.68		$ 3.97	
Percentage volume condition met	80.5	%	94.5	%	94.9	%	28.6	%	51.0	%	75.2	%	85.9	%
Expected volatility	66.9	%	73.5	%	72.5	%	72.5	%	70.0	%	71.0	%	75.0	%
Risk free rate	0.20	%	0.23	%	0.25	%	0.25	%	0.23	%	0.33	%	0.44	%
Bond yield	16.5	%	16.5	%	16.5	%	16.5	%	15.0	%	16.0	%	15.0	%
Recovery rate	30.0	%	30.0	%	30.0	%	30.0	%	30.0	%	30.0	%	30.0	%
Redeemable	yes		yes		yes		yes		yes		yes		yes	
Total time (years)	1.51		1.76		1.79		1.79		2.01		2.28		2.50	
Dilution effect	yes		yes		yes		yes		yes		yes		yes	
Fair value	$ 0.5 million		$ 1.0 million		$ 1.5 million		$ 0.9 million		$ 2.8 million		$ 4.5 million		$ 3.8 million	
	3.4	%	4.9	%	7.1	%	3.9	%	11.4	%	17.9	%	15.1	%

Fair value as a percent of par

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

The Company recorded the decrease in the fair value of the derivative liabilities of $0.2 million and $0.5 million as a gain to changes in fair value of derivatives and warrants in the three and nine months ended December 31, 2013, and similarly, gains of $2.3 million and $3.3 million in the three and nine months ended December 31, 2012, respectively.

Senior Secured Term Loan – First Warrant

On June 5, 2012, the Company entered into the Loan and Security Agreement with Hercules. (See Note 10, "Debt," for additional information regarding the Loan and Security Agreement.) In conjunction with this agreement, the Company issued the First Warrant to purchase 139,276 shares of the Company's common stock. The First Warrant is exercisable at any time after its issuance and expires on December 5, 2017, at a price equal to $3.59 per share subject to certain price-based and other anti-dilution adjustments. The exercise price was reduced to $1.95 per share in conjunction with entering into the New Term Loan.

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

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

Fiscal Year 13	December 31, 2013		Post-modification November 15, 2013		Pre-modification November 15, 2013		September 30, 2013		June 30, 2013	
Risk-free interest rate	1.24	%	1.00	%	1.00	%	1.09	%	1.20	%
Expected annual dividend yield	—	%	—	%	—	%	—	%	—	%
Expected volatility	74.79	%	72.64	%	72.64	%	72.10	%	72.30	%
Term (years)	3.93		4.05		4.05		4.18		4.43	
Fair value	$ 0.1 million		$ 0.1 million		$ 0.1 million		$ 0.2 million		$ 0.2 million	

Fiscal Year 12	March 31, 2013		December 31, 2012		September 30, 2012		June 30, 2012		June 5, 2012	
Risk-free interest rate	0.70	%	0.75	%	0.64	%	0.80	%	0.77	%
Expected annual dividend yield	—	%	—	%	—	%	—	%	—	%
Expected volatility	72.01	%	80.14	%	81.18	%	80.32	%	79.99	%
Term (years)	4.68		4.93		5.18		5.44		5.50	
Fair value	$ 0.2 million		$ 0.2 million		$ 0.4 million		$ 0.5 million		$ 0.4 million	

The Company recorded a decrease in the fair value of the First Warrant resulting in a gain of less than $0.1 million during the three and nine months ended December 31, 2013. The Company recorded a decrease in the fair value of $0.2 million as a gain to change in fair value of derivatives and warrants during the three and nine months ended December 31, 2012.

Senior Secured Term Loan – Second Warrant

On November 15, 2013, the Company amended the Loan and Security Agreement with Hercules and entered into the New Term Loan. (See Note 10, "Debt," for additional information regarding the New Term Loan.) In conjunction with this agreement, the Company issued the Second Warrant to purchase 256,410 shares of the Company's common stock. The Second Warrant is exercisable at any time after its issuance and expires on May 15, 2019, at a price equal to

$1.95 per share subject to certain price-based and other anti-dilution adjustments.

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

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

Fiscal Year 13	December 31, 2013		New Issuance November 15, 2013	
Risk-free interest rate	1.89	%	1.55	%
Expected annual dividend yield	—	%	—	%
Expected volatility	80.37	%	76.97	%
Term (years)	5.37		5.49	
Fair value	$ 0.3 million		$ 0.3 million	

The Company recorded a decrease in the fair value of the Second Warrant resulting in a gain of less than $0.1 million during the three months ended December 31, 2013.

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

12.Stockholders' Equity

On November 15, 2013, the Company entered into an ATM arrangement, pursuant to which, the Company may, at its discretion, sell up to $30.0 million of the Company's common stock through its sales agent, MLV & Co. LLC ("MLV"). Sales of common stock made under the ATM are made on The NASDAQ Global Market under the Company's previously filed and currently effective Registration Statement on Form S-3 (File No. 333-191153) by means of ordinary brokers' transactions at market prices. Additionally, under the terms of the ATM, the Company may also sell shares of its common stock through MLV, on The NASDAQ Global Market or otherwise, at negotiated prices or at prices related to the prevailing market price. Under the terms of the ATM, MLV may not engage in any proprietary trading or trading as principal for MLV's own account. MLV uses 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). The Company pays MLV a commission of up to 3% of the gross proceeds from the sale of shares of its common stock under the ATM. The Company has also agreed to provide MLV with customary indemnification rights. The offering of common stock pursuant to the ATM will terminate upon the earlier of the sale of all of the common stock subject to the ATM or the termination of the ATM by the Company or MLV. Either party may terminate the ATM at its sole discretion at any time upon written notice to the other party.

During the three months ended December 31, 2013, the Company received net proceeds of $3.3 million, including sales commissions and offering expenses, from sales of approximately 2.4 million shares of its common stock at an average sales price of approximately $1.51 per share under the ATM.

13. Commitments and Contingencies

Commitments

Purchase Commitments

The Company periodically enters into non-cancelable purchase contracts in order to ensure the availability of materials to support production of its products. Purchase commitments represent enforceable and legally binding agreements with suppliers to purchase goods or services. The Company periodically assesses the need to provide for impairment on these purchase contracts and record a loss on purchase commitments when required. As of December 31, 2013, the Company reported a liability for adverse purchase commitments of $0.4 million. During the three and nine months ended December 31, 2013, the Company reduced its accrual for adverse purchase commitments by $0.5 million and $1.0 million, respectively, due to payments to certain vendors.

Legal Contingencies

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

Between April 6, 2011 and May 12, 2011, seven putative securities class action complaints were filed against the Company and two of its officers in the United States District Court for the District of Massachusetts; one complaint additionally asserted claims against the underwriters who participated in our November 12, 2010 securities offering. On June 7, 2011, the United States District Court for the District of Massachusetts (the “Court”) consolidated these actions under the caption Lenartz v. American Superconductor Corporation, et al., Docket No. 1:11-cv-10582-WGY. On August 31, 2011, Lead Plaintiff, the Plumbers and Pipefitters National Pension Fund, filed a consolidated amended complaint against the Company, its officers and directors, and the underwriters who participated in our November 12, 2010 securities offering, asserting claims under sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated under the Exchange Act, as well as under sections 11, 12(a)(2) and 15 of the Securities Act of 1933 (the “Securities Act”). The complaint alleges that during the relevant class period, the Company and its officers omitted to state material facts and made materially false and misleading statements relating to, among other things, its projected and recognized revenues and earnings, as well as its relationship with Sinovel Wind Group Co., Ltd. that artificially inflated the value of the Company’s stock price. The complaint further alleges that the Company’s November 12, 2010 securities offering contained untrue statements of material facts and omitted to state material facts required to be stated therein. The plaintiffs seek unspecified damages, rescindment of the Company’s November 12, 2010 securities offering, and an award of costs and expenses, including attorney’s fees. All defendants moved to dismiss the consolidated amended complaint. On December 16, 2011, the district court issued a summary order declining to dismiss the Securities Act claims against the Company and its officers, and taking under advisement the motion to dismiss the Exchange Act claims against the Company and its officers and the motion to dismiss the Securities Act claims made against the underwriters. On July 26, 2012, the district court dismissed the Exchange Act claims against the Company and its officers and denied the motion to dismiss the Securities Act claims made against the underwriters. On May 17, 2013, the parties informed the district court that they had reached a settlement in principle, and requested a 30-day stay of the proceedings while the specific terms of the settlement continue to be negotiated. On November 19, 2013, the Company entered into a Stipulation and Agreement of Settlement (the “Stipulation”), which will resolve the claims asserted against the Company, certain of its current and former officers and directors, and the underwriters. The terms of the Stipulation provide, among other things, a settlement payment by the Company of $10.0 million, $8.2 million of which will be funded by the Company’s insurers and $1.8 million of which is expected to be paid through the issuance of 944,882 shares of its common stock (the “Settlement Shares”). In the event that the value of the Settlement Shares (as calculated under the Stipulation) decreases as of the effective date of the settlement, the Company is required to make a cash payment for the difference in value. As of March 31, 2013, the Company established a reserve for the anticipated cost to settle this class action litigation. The terms of the Stipulation are subject to approval by the Court following notice to all class members. The issuance of the Settlement Shares is expected to be exempt from registration pursuant to Section 3(a)(10) of the Securities Act of 1933, as amended. Based on the Company’s assessment of the probable losses on this claim, the Company has recorded a loss contingency of $1.8 million as of December 31, 2013.

Between May 4, 2011 and June 17, 2011, four putative shareholder derivative complaints were filed against the Company (as a nominal defendant) and certain of its directors in the United States District Court for the District of Massachusetts. On July 5, 2011, the District Court consolidated three of these actions, and that matter is now captioned In re American Superconductor Corporation Derivative Litigation, Docket No. 1:11-cv-10784-WGY. On June 1, 2011, the plaintiff in the fourth action, Marlborough Family Revocable Trust v. Yurek, et al., moved to voluntarily dismiss its complaint and refiled its complaint in Superior Court for the Commonwealth of Massachusetts, Middlesex County. On September 7, 2011, the Marlborough action and another putative shareholder derivative complaint filed in Superior Court for the Commonwealth of Massachusetts were consolidated. That consolidated matter is captioned In re American Superconductor Corporation Shareholder Derivative Litigation, Docket No. 11-1961. On January 12, 2012, an additional shareholder derivative complaint was filed in the Court of Chancery for the State of Delaware. That matter is captioned Krasnoff v. Budhraja, et al., Docket No. 7171. The allegations of the derivative complaints mirror the allegations made in the putative class action complaints described above. The plaintiffs purport to assert claims against the director defendants for breach of fiduciary duty, abuse of control, gross mismanagement, unjust enrichment and corporate waste. On February 4, 2014, the Company entered into a Stipulation and Agreement of Settlement (the “Derivative Stipulation”) to settle In re American Superconductor Corporation Derivative Litigation, In re American Superconductor Corporation Shareholder Derivative Litigation, and Krasnoff v. Budhraja, et al., (together, the “Derivative Actions”). The Derivative Actions named certain current and former directors and officers of the Company as defendants. The current and former directors and officers named as individual defendants have denied expressly and continue to deny each and all of the claims and contentions alleged against them, and neither the individual defendants nor the Company have admitted any fault, wrongdoing or concession of liability in connection with the terms of the Derivative Stipulation. The Derivative Stipulation will be filed with the Court within five business days of February 4, 2014. The Derivative Stipulation provides for, among other things, (a) a release of all claims relating to the Derivative Actions for the Company, the individual defendants, who are all current or former officers and directors of the Company, and the plaintiffs; (b) a requirement that the Company pay to plaintiffs’ counsel $475,000.00 for fees and expenses, which will be fully funded by the Company’s insurers; and (c) certain additions to the Company’s corporate governance policies, many of which have already been implemented. The Derivative Stipulation remains subject to preliminary and final approval by the Court and certain other conditions, including notice to stockholders. At this time, there can be no assurance that the Derivative Stipulation will receive the required approvals or that the settlement will become final. Based on the Company’s assessment that the probable losses on this claim are insignificant, no loss contingency was recorded as of December 31, 2013.

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

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

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

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

The Company submitted a civil action application to the Beijing Higher People's Court against Sinovel and certain of its employees for trade secret infringement on September 13, 2011 under the caption (2011) Gao Min Chu Zi No. 4193. The application alleges the defendants' unauthorized use of portions of the Company's wind turbine control software source code developed for Sinovel's 1.5MW wind turbines as described above with respect to the Copyright

Action. The Company is seeking monetary damages of RMB 2.9 billion ($453 million) for the trade secret infringement as well as reimbursement of all costs and reasonable expenses. The Beijing Higher People's Court accepted the case, which was necessary in order for the case to proceed. On December 22, 2011, the Beijing Higher People's Court transferred this case to the Beijing No. 1 Intermediate People's Court under the caption (2011) Gao Min Chu Zi No. 4193. On June 7, 2012, the Company received an Acceptance Notice from the Beijing No.1 Intermediate People's Court under the caption (2012) Yi Zhong Min Chu Zi No.6833. The Company is currently awaiting notice from the Beijing No. 1 Intermediate People's Court regarding the first hearing date. In August 2012, Sinovel filed a motion to remove this case from the Beijing No. 1 Intermediate People's Court and transfer the matter to the Beijing Arbitration Commission.

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

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

Other

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

As of December 31, 2013 the Company had $1.4 million of restricted cash included in current assets, and $4.9 million of restricted cash included in long-term assets. These amounts included in restricted cash represent deposits to secure letters of credit for various supply contracts. These deposits are held in interest bearing accounts.

As of December 31, 2013, the Company had one performance bond in support of customer contracts. The total value of the outstanding performance bond is $0.2 million with an expiration date of March 2014. In the event that the payment is made in accordance with the requirements of any of these performance bonds, the Company would record the payment as an offset to revenue.

The Company had an unused, unsecured line of credit consisting of €2.7 million (approximately $3.7 million) in Austria as of December 31, 2013.

14. Minority Investments

Investment in Tres Amigas LLC

On October 9, 2009, the Company made an investment in Tres Amigas LLC, a Delaware limited liability company ("Tres Amigas"), focused on providing the first common interconnection of America's three power grids to help the country achieve its renewable energy goals and facilitate the smooth, reliable and efficient transfer of green power from region to region, for $1.8 million, consisting of $0.8 million in cash and $1.0 million in AMSC common stock. On January 6, 2011 and May 20, 2011, the Company increased its minority position in Tres Amigas by investing an additional $1.8 million in cash on each date. As of December 31, 2013, the Company holds a 26% ownership interest in Tres Amigas.

The Company has determined that Tres Amigas is a variable interest entity ("VIE") and that the Company is not the primary beneficiary of the VIE. Therefore, the Company has not consolidated Tres Amigas as of December 31, 2013. The investment is carried at acquisition cost, plus the Company's equity in undistributed earnings or losses. The Company's maximum exposure to loss is limited to the Company's recorded investment in this VIE. The Company's investment in Tres Amigas is included in other assets on the consolidated balance sheet and the equity in undistributed losses of Tres Amigas is included in other expense, net, on the unaudited condensed consolidated statements of operations.

The net investment activity for the nine months ended December 31, 2013 is as follows (in thousands):

Balance at April 1, 2013	$2,853
Minority interest in net losses	(789)
Balance at December 31, 2013	$2,064

Investment in Blade Dynamics Ltd.

On August 12, 2010, the Company acquired (through its Austrian subsidiary), a minority ownership position in Blade Dynamics Ltd. ("Blade Dynamics"), a designer and manufacturer of advanced wind turbine blades based on proprietary materials and structural technologies, for $8.0 million in cash. As of December 31, 2013, the Company holds a 19% ownership interest in Blade Dynamics.

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

The net investment activity for the nine months ended December 31, 2013 is as follows (in thousands):

Balance at April 1, 2013	$4,611
Net foreign exchange rate impact	342
Balance at December 31, 2013	$4,953

15. Business Segments

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

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

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

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

	Three months ended December 31,		Nine months ended December 31,	
	2013	2012	2013	2012
Revenues:				
Wind	$13,545	$6,808	$42,937	$35,321
Grid	7,018	10,609	24,893	31,679
Total	$20,563	$17,417	$67,830	$67,000

	Three months ended December 31,		Nine months ended December 31,	
	2013	2012	2013	2012
Operating (loss) income:				
Wind	$1,067	$(5,365)	$(3,207)	$(10,514)
Grid	(4,670)	(6,705)	(15,287)	(18,620)
Unallocated corporate expenses	(3,072)	(8,546)	(8,058)	(12,580)
Total	$(6,675)	$(20,616)	$(26,552)	$(41,714)

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

Unallocated corporate expenses primarily consist of stock-based compensation expense of $3.0 million and $7.3 million, and restructuring and impairment charges of $0.1 million and $0.9 million, for the three and nine months ended December 31, 2013, respectively. Unallocated corporate expenses primarily consist of stock-based compensation expense of $1.9 million and $6.0 million, respectively, and restructuring and impairment charges of $6.7 million and $6.8 million, respectively, for the three and nine months ended December 31, 2012, respectively.

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

	December 31, 2013	March 31, 2013
Wind	$52,351	$67,111
Grid	58,354	72,800
Corporate assets	67,666	76,843
Total	$178,371	$216,754

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, 2013 and 2012:

	Three months ended December 31,		Nine months ended December 31,	
	2013	2012	2013	2012
INOX Wind Limited	35 %	19 %	25 %	17 %
CSR Zhuzhou Institute Co., Ltd	18 %	— %	<10%	<10 %
Beijing JINGCHENG New Energy Co., Ltd.	<10%	<10 %	22 %	17 %
CG Power Solutions UK Ltd	— %	21 %	<10%	<10 %
E.ON Climate & Renewables	<10%	19 %	<10%	<10 %

16. Recent Accounting Pronouncements

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

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

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

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

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

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

17. Subsequent Events

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

AMERICAN SUPERCONDUCTOR CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For this purpose, any statements contained herein that relate to future events or conditions, including without limitation, the statements in Part II, "Item 1A. Risk Factors" and in Part I under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and located elsewhere herein regarding industry prospects or our prospective results of operations or financial position, may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements. Such forward-looking statements represent management's current expectations and are inherently uncertain. There are a number of important factors that could materially impact the value of our common stock or cause actual results to differ materially from those indicated by such forward-looking statements. Such factors include: We have experienced recurring operating losses and recurring negative cash flows from operations which raise substantial doubt about our ability to continue as a going concern. This substantial doubt has resulted in a qualified opinion from our auditors with an explanatory paragraph regarding our ability to continue as a going concern. We believe this opinion may have an adverse effect on our customer and supplier relationships; our success in addressing the wind energy market is dependent on the manufacturers that license our designs; we may not realize all of the sales expected from our backlog of orders and contracts; our business and operations would be adversely impacted in the event of a failure or security breach of our information technology infrastructure; our success is dependent upon attracting and retaining qualified personnel and our inability to do so could significantly damage our business and prospects; we rely upon third-party suppliers for the components and subassemblies of many of our Wind and Grid products, making us vulnerable to supply shortages and price fluctuations, which could harm our business; many of our revenue opportunities are dependent upon subcontractors and other business collaborators; if we fail to implement our business strategy successfully, our financial performance could be harmed; problems with product quality or product performance may cause us to incur warranty expenses and may damage our market reputation and prevent us from achieving increased sales and market share; new regulations related to conflict-free minerals may force us to incur significant additional expenses; our contracts with the U.S. government are subject to audit, modification or termination by the U.S. government and include certain other provisions in favor of the government; the continued funding of such contracts remains subject to annual congressional appropriation which, if not approved, could reduce our revenue and lower or eliminate our profit; we may acquire additional complementary businesses or technologies, which may require us to incur substantial costs for which we may never realize the anticipated benefits; many of our customers outside of the United States are, either directly or indirectly, related to governmental entities, and we could be adversely affected by violations of the United States Foreign Corrupt Practices Act and similar worldwide anti-bribery laws outside the United States; we have limited experience in marketing and selling our superconductor products and system-level solutions, and our failure to effectively market and sell our products and solutions could lower our revenue and cash flow; we have experienced recurring losses from operations and negative operating cash flow; these factors raise substantial doubt regarding our ability to continue as a going concern; we have a history of operating losses, and we may incur additional losses in the future; our operating results may fluctuate significantly from quarter to quarter and may fall below expectations in any particular fiscal quarter; we may require additional funding in the future and may be unable to raise capital when needed; our debt obligations include certain covenants and other events of default; should we not comply with the covenants or incur an event of default, we may be required to repay our debt obligations in cash, which could have an adverse effect on our liquidity; if we fail to maintain proper and effective internal controls over financial reporting, our ability to produce accurate and timely financial statements could be impaired and may lead investors and other users to lose confidence in our financial data; we may be required to issue performance bonds or provide letters of credit, which restricts our ability to access any cash used as collateral for the bonds or letters of credit; changes in exchange rates could adversely affect our results from operations; growth of the wind energy market depends largely on the availability and size of government subsidies and economic incentives; we depend on sales to customers in China and India, and global conditions could negatively affect our operating results or limit our ability to expand our operations outside of these countries; changes in China's or India's political, social, regulatory and economic environment may affect our financial performance; our products face intense competition, which could limit our ability to acquire or retain customers; our international operations are subject to risks that we do not face in the United States, which could have an adverse effect on our operating results; adverse changes in domestic and global economic conditions could adversely affect our operating results; we may be unable to adequately prevent disclosure of trade secrets and other proprietary information; our patents may not provide meaningful protection for our technology, which could result in us losing some or all of our market position; the commercial uses of superconductor products are limited today, and a widespread commercial market for our products may not develop; there are a number of technological challenges that must be successfully addressed before our superconductor products can gain widespread commercial acceptance, and our inability to address such technological challenges could adversely affect our ability to acquire customers for our products; we have not manufactured our Amperium wire in commercial quantities, and a failure to manufacture our Amperium wire in commercial quantities at acceptable cost and quality levels would substantially limit our future revenue and profit potential; third parties have or may acquire patents that cover the materials, processes and technologies we use or may use in the future to manufacture our Amperium products, and our success depends on our ability to license such patents or other proprietary rights; our technology and products could infringe intellectual property rights of others, which may require costly litigation and, if we are not successful, could cause us to pay substantial damages and disrupt our business; we have filed a demand for arbitration and other lawsuits against our former largest customer, Sinovel, regarding amounts we contend are overdue. We cannot be certain as to the outcome of these proceedings; we have been named as a party to purported stockholder class actions and stockholder derivative complaints, and we may be named in additional litigation, all of which will require significant management time and attention, result in significant legal expenses and may result in an unfavorable outcome, which could have a material adverse effect on our business, operating results and financial condition; our 7% convertible note contains warrants and provisions that could limit our ability to repay the note in shares of common stock and should the note be repaid in stock, shareholders could experience significant dilution; our common stock has experienced, and may continue to experience, significant market price and volume fluctuations, which may prevent our stockholders from selling our common stock at a profit and could lead to costly litigation against us that could divert our management’s attention. These and the important factors discussed under the caption “Risk Factors” in Part 1. Item 1A of our Form 10-K for the fiscal year ended March 31, 2013, among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time. Any such forward-looking statements represent management’s estimates as of the date of this Quarterly Report on Form 10-Q. While we may elect to update such forward-looking statements at some point in the future, we disclaim any obligation to do so, even if subsequent events cause our views to change. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

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Executive Overview

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

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

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

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

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

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

Our fiscal year begins on April 1 and ends on March 31. When we refer to a particular fiscal year, we are referring to the fiscal year beginning on April 1 of that same year. For example, fiscal 2013 refers to the fiscal year beginning on April 1, 2013. Other fiscal years follow similarly.

On April 4, 2012, we completed a private placement of a $25.0 million senior convertible note (the “Initial Note”) with Capital Ventures International (“CVI”), an affiliate of Heights Capital Management. On December 20, 2012, we entered into an Amendment and Exchange Agreement (the “Amendment”) with CVI, pursuant to which we exchanged the Initial Note for a new unsecured, senior convertible note (the “Exchanged Note”), which had the same principal amount and accrued interest as the Initial Note at the time of the exchange. On October 9, 2013, we entered into a Second Amendment and Warrant Exchange Agreement (the “Second Amendment”) with CVI which (i) waived certain provisions of the Amended Purchase Agreement, (ii) amended certain provisions of the Exchanged Note, and (iii) exchanged the warrant for a new warrant (the “Exchanged Warrant”), with a reduced exercise price of $2.61 per share of common stock. Other than the reduced exercise price, the Exchanged Warrant has the same terms and conditions as the original warrant. On June 5, 2012, we entered into a $10.0 million Loan and Security Agreement (“Term Loan”) with Hercules Technology Growth Capital, Inc. (“Hercules”). On November 15, 2013, we amended the Term Loan with Hercules and entered into a new term loan (“New Term Loan”), borrowing an additional $10.0 million. In addition, on November 15, 2013, we entered into an At Market Sales Arrangement (“ATM”) under which we may, at our discretion, sell up to $30.0 million of shares of our common stock (before expenses) through our sales agent, MLV & Co. LLC (“MLV”). See Liquidity and Capital Resources below for further discussion of these financing arrangements.

We have experienced recurring operating losses and as of December 31, 2013, had an accumulated deficit of $833.7 million. In addition, we have experienced recurring negative operating cash flows, which have resulted in a reduction of our cash balance. These factors raise substantial doubt regarding our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty. At December 31, 2013, we had cash and cash equivalents of $35.4 million. Cash used in operations for the nine months ended December 31, 2013 was $18.4 million.

In order for us to continue operations beyond the next twelve months and be able to discharge our liabilities and commitments in the normal course of business, we need to increase sales through executing our strategy to broaden our customer base, enter new markets, and commercialize our superconductor product line. Otherwise, we may need to further reduce operating expenses in line with business conditions in order to decrease the amount of cash used in operations. We intend to continue to work with the holder of our convertible note in order to maintain the ability to make monthly amortization payments on the convertible note in shares of common stock. In addition, we are actively seeking to sell our minority investments in Tres Amigas and Blade Dynamics and have engaged a financial advisor to assist with that effort. There can be no assurance that we will be able to sell one or both of these investments on commercially reasonable terms or at all. In addition, we maintain the ability to sell shares of our common stock under the ATM at our discretion to enhance liquidity.

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

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

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

As of the date of this filing, we have not received payment from Sinovel for any outstanding receivables nor have we been notified as to when, if ever, Sinovel will accept contracted shipments that were scheduled for delivery after March 31, 2011. Additionally, based, in part, upon evidence obtained through an internal investigation and a criminal investigation conducted by Austrian authorities regarding the actions of a former employee of our Austrian subsidiary, we believe that Sinovel illegally obtained and used our intellectual property in violation of civil and criminal intellectual property laws. In July 2011, a former employee of our Austrian subsidiary was arrested in Austria on charges of economic espionage and fraudulent manipulation of data. In September 2011, the former employee pled guilty to the charges, and was imprisoned. The evidence presented during the court hearing showed that this former employee was contracted by Sinovel through an intermediary while employed by us and improperly obtained and transferred to Sinovel portions of our wind turbine control software source code developed for Sinovel’s 1.5MW wind turbines. On June 27, 2013, the U.S. Department of Justice, following an investigation by the Federal Bureau of Investigation, charged Sinovel and two of its employees with the theft of our proprietary software code and the use of that intellectual property in four 1.5 MW Sinovel turbines that have been installed in the Massachusetts towns of Charlestown, Fairhaven, and Scituate. These parties that have installed Sinovel turbines and their contractors are not implicated in any way. Except for portions of this 1.5MW wind turbine software, we do not believe that the source code for any other turbines, such as the 3MW, 5MW and 6MW wind turbines that were designed by and co-developed with us have been transferred to Sinovel. Moreover, we believe the evidence shows this former employee illegally used source code to develop, for Sinovel, a software modification to circumvent the encryption and remove technical protection measures on the PM3000 power converters in 1.5MW wind turbines in the field. We believe that only the binary code, or upper layer, of the PM3000 software developed to circumvent the encryption and remove technical protection measures was transferred to Sinovel. We do not believe that any PM3000 source code was transferred to Sinovel. These actions potentially enable Sinovel to deploy, independent of us, wind turbine control software, including a low voltage ride through solution, on all of its 1.5MW wind turbines in the field. In addition, by having the wind turbine control source code, Sinovel could potentially modify the source code to allow the use of core electrical components, including power converters, from other manufacturers.

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

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

Critical Accounting Policies and Estimates

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

Results of Operations

Three and nine months ended December 31, 2013 compared to the three and nine months ended December 31, 2012

Revenues

Total revenues increased by 18% and 1% to $20.6 million and $67.8 million, respectively, for the three and nine months ended December 31, 2013, respectively, compared to $17.4 million and $67.0 million for the three and nine months ended December 31, 2012, respectively. Our revenues are summarized as follows (in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2013	2012	2013	2012
Revenues:				
Wind	$13,545	$6,808	$42,937	$35,321
Grid	7,018	10,609	24,893	31,679
Total	$20,563	$17,417	$67,830	$67,000

Our Wind business unit accounted for 66% and 63% of total revenues for the three and nine months ended December 31, 2013, respectively, compared to 39% and 53% for the three and nine months ended December 31, 2012, respectively. Revenues in the Wind business unit increased 99% and 22% to $13.5 million and $42.9 million in the three and nine months ended December 31, 2013, respectively, from $6.8 million and $35.3 million in the three and nine months ended December 31, 2012, respectively. Wind business unit revenues during the three and nine months ended December 31, 2013 increased primarily due to higher revenues from customers in both India and China, partially offset by lower revenues in Korea.

Our Grid business unit accounted for 34% and 37% of total revenues for the three and nine months ended December 31, 2013, respectively, compared to 61% and 47% for the three and nine months ended December 31, 2012. Our Grid business unit revenues decreased 34% and 21% to $7.0 million and $24.9 million in the three and nine months ended December 31, 2013, respectively, from $10.6 million and $31.7 million in the three and nine months ended December 31, 2012, respectively. Grid business unit revenues decreased in the three months ended December 31, 2013 primarily due to lower D-VAR system revenues as a result of a large project in the UK in the prior year period. Grid business unit revenues decreased in the nine months ended December 31, 2013 primarily due to lower D-VAR revenues from Australian and UK customers.

Project HYDRA is a project with Consolidated Edison, Inc. which is being partially funded by the Department of Homeland Security (“DHS”). DHS is expected to invest up to a total of $29.0 million in the development of a new HTS power grid technology called Resilient Electric Grid systems. This fault current limiting cable system is designed to utilize customized Amperium® HTS wires, and ancillary controls to deliver more power through the grid while also being able to suppress power surges that can disrupt service. On July 8, 2013, DHS committed the additional $8.6 million in funding on Project HYDRA. DHS has now committed 100% of the total expected funding for this project. Consolidated Edison and Southwire Company are our subcontractors on this project. We recorded $0.5 million and $1.6 million of revenue on this project for the three and nine months ended December 31, 2013, respectively, and $0.5 million and $1.7 million for the three and nine months ended December 31, 2012, respectively.

The following table sets forth customers who represented 10% or more of our total revenues for the three and nine months ended December 31, 2013 and 2012:

	Three months ended December 31,		Nine months ended December 31,	
	2013	2012	2013	2012
INOX Wind Limited	35%	19 %	25%	17 %
CSR Zhuzhou Institute Co., Ltd	18%	— %	<10%	<10 %
Beijing JINGCHENG New Energy Co., Ltd.	<10%	<10 %	22%	17 %
CG Power Solutions UK Ltd	— %	21 %	<10%	<10 %
E.ON Climate & Renewables	<10%	19 %	<10%	<10 %

Cost of Revenues and Gross Margin

Cost of revenues were $15.9 million and $56.5 million for the three and nine months ended December 31, 2013, respectively, compared to $16.5 million and $53.8 million for the three and nine months ended December 31, 2012, respectively. Gross margin was 22.9% and 16.8% for the three and nine months ended December 31, 2013, respectively, compared to 5.1% and 19.6% for the three and nine months ended December 31, 2012, respectively. The increase in gross margin for the three months ended December 31, 2013 as compared to the same period in fiscal 2012 was primarily due to increased revenues from certain Chinese customers which included amounts for which revenue is recorded at the time of payment, whereas the associated costs were recorded in a prior period, and increased consumption of previously written off inventory in the current year period. The decrease in gross margin for the nine months ended December 31, 2013 was primarily due to non-recurring settlements of certain adverse purchase order liabilities resulting in a benefit to cost of revenues of $8.4 million in the prior year period.

Operating Expenses

Research and development

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

	Three months ended December 31,		Nine months ended December 31,	
	2013	2012	2013	2012
R&D expenses per condensed consolidated statements of operations	$2,951	$3,948	$9,061	$11,480
R&D expenditures reclassified as cost of revenues	2,740	3,044	7,675	10,184
R&D expenditures offset by cost-sharing funding	80	40	279	144
Aggregated R&D expenses	$5,771	$7,032	$17,015	$21,808

R&D expenses (exclusive of amounts classified as cost of revenues and amounts offset by cost-sharing funding) decreased by 25% and 21% to $3.0 million and $9.1 million for the three and nine months ended December 31, 2013, respectively, from $3.9 million and $11.5 million for the three and nine months ended December 31, 2012, respectively. The decreases in R&D expenses were driven primarily by the realization of savings from cost reduction actions that were implemented in fiscal 2012. The decreases in R&D expenditures reclassified to costs of revenue were a result of decreased activity under license and development contracts for wind turbine designs compared to the prior year periods. Aggregated R&D expenses, which include amounts classified as cost of revenues and amounts offset by cost-sharing funding, decreased 18% and 22% to $5.8 million and $17.0 million for the three and nine months ended December 31, 2013, respectively, from $7.0 million and $21.8 million for the three and nine months ended December 31, 2012, respectively.

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

Selling, general, and administrative

SG&A expenses decreased by 24% each to $8.2 million and $27.7 million in the three and nine months ended December 31, 2013, respectively, from $10.8 million and $36.3 million in the three and nine months ended December 31, 2012, respectively. The decreases in SG&A expenses were due primarily to the realization of savings from cost reductions actions that were implemented in fiscal 2012 as well as a reduction in legal costs.

Amortization of acquisition related intangibles

We recorded amortization expense related to our core technology and know-how, trade names and trademark intangible assets of $0.1 million and $0.2 million in the three and nine month periods ended December 31, 2013, respectively, compared to $0.1 million and $0.2 million in the three and nine month periods ended December 31, 2012, respectively.

Restructuring and Impairments

We recorded $0.1 million and $0.9 million of restructuring charges in the three and nine months ended December 31, 2013, respectively. We recorded restructuring and impairment charges of $6.7 million and $6.8 million in the three and nine months ended December 31, 2012, respectively. The amounts in the three and nine months ended December 31, 2013 consist primarily of employee severance and benefit costs related to our reduction in force undertaken in July 2013. The amounts in the three and nine months ended December 31, 2012 consist primarily of a long-lived asset impairment charge of $4.5 million recorded in the three months ended December 31, 2012, as well as employee severance and benefit costs of $2.2 million and $2.3 million in the three and nine months ended December 31, 2012, respectively related to our restructuring actions.

Operating loss

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

	Three months ended December 31,		Nine months ended December 31,	
	2013	2012	2013	2012
Operating (loss) income:				
Wind	$1,067	$(5,365)	$(3,207)	$(10,514)
Grid	(4,670)	(6,705)	(15,287)	(18,620)
Unallocated corporate expenses	(3,072)	(8,546)	(8,058)	(12,580)
Total	$(6,675)	$(20,616)	$(26,552)	$(41,714)

Our Wind segment generated an operating profit of $1.1 million and an operating loss of $3.2 million in the three and nine months ended December 31, 2013, respectively, compared to operating losses of $5.4 million and $10.5 million in the three and nine months ended December 31, 2012, respectively. The decreases in Wind business unit operating losses were primarily due to higher gross profit in the three and nine months ended December 31, 2013, due to higher revenues from certain Chinese customers recorded at 100% gross margin as previously discussed and lower operating expenses as a result of cost reduction efforts during fiscal 2012 and 2013, and for the nine month period, partially offset by a gain from the settlement of certain adverse purchase order liabilities in the prior year.

The operating losses in our Grid segment decreased to $4.7 million and $15.3 million in the three and nine months ended December 31, 2013, respectively, compared to $6.7 million and $18.6 million in the three and nine months ended December 31, 2012, respectively. The decreases in the Grid business unit operating losses were primarily due to lower operating expenses in the three and nine months ended December 31, 2013, as a result of our cost reduction actions, partially offset by lower D-VAR revenue, as previously discussed.

Unallocated corporate expenses primarily include stock-based compensation expense of $3.0 million and $7.3 million, and restructuring and impairment charges of $0.1 and $0.9 million, for the three and nine months ended December 31, 2013, respectively. Unallocated corporate expenses primarily consist of stock-based compensation expense of $1.9 million and $6.0 million, respectively, and restructuring and impairment charges of $6.7 million and $6.8 million, respectively, for the three and nine months ended December 31, 2012, respectively.

Change in fair value of derivatives and warrants

The change in fair value of derivatives and warrants resulted in gains of $0.5 million and $1.9 million in the three and nine months ended December 31, 2013, respectively, compared to gains of $5.2 million and $6.1 million for the three and nine months ended December 31, 2012, respectively. The changes were primarily driven by a lower reduction in our stock price during the three and nine months ended December 31, 2013, compared to the same periods in fiscal 2012, which is a key valuation variable, as well as a reduction in the principal outstanding on the convertible note due to payments to the note holder in shares of common stock.

Interest expense, net

Interest expense, net, was $1.6 million and $7.3 million in the three and nine months ended December 31, 2013, respectively, compared to $4.6 million and $10.2 million in the three and nine months ended December 31, 2012, respectively. The decreases in interest expense were due primarily to lower non-cash interest expense as a result of lower debt discount amortization compared to prior year periods. In addition, there was non-cash interest expense of $1.3 million in the three months ended December 31, 2012 resulting from the discount available to CVI on stock used to settle principal and interest on the convertible note. There were no debt payments made in stock and no discount recorded to non-cash interest expense during the three months ended December 31, 2013.

Other expense, net

Other expense, net, was $0.3 million and $0.9 million in the three and nine months ended December 31, 2013, respectively, compared to $0.1 million and $1.3 million in the three and nine months ended December 31, 2012, respectively. For the three months ended December 31, 2013 and 2012, the increase in other expense, net was primarily due to proceeds of $0.5 million from a sale of a non-operating asset received during the three months ended December 31, 2012, partially offset by lower minority interest recorded from our investment in Blade Dynamics, as we no longer meet the criteria to account for our investment under the equity method. For the nine months ended December 31, 2013 and 2012, the decrease in other expense, net, was driven primarily by lower minority interest as discussed above.

Income Taxes

In the three and nine months ended December 31, 2013, we recorded an income tax expense of $0.3 million and $0.7 million, respectively, compared to income tax expense of $0.1 million and a benefit of $0.7 million in the three and nine months ended December 31, 2012, respectively. The increases in income tax expense were primarily due to increased income taxes in foreign jurisdictions as well as, with respect to the nine months ended December 31, 2013, withholding taxes for repatriation of funds from certain foreign jurisdictions. The income tax benefit for the nine months ended December 31, 2012 was due primarily to a refund of Chinese income taxes.

Non-GAAP Measures

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

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

	Three months ended December 31,		Nine months ended December 31,	
	2013	2012	2013	2012
Net loss	$ (8,417)	$ (20,135)	$ (33,553)	$ (46,360)
Adverse purchase commitment (recoveries) losses, net	-	(119)	-	(8,428)
Stock-based compensation	3,040	1,929	7,328	5,968
Amortization of acquisition-related intangibles	84	81	247	242
Restructuring and impairment charges	108	6,702	872	6,845
Sinovel litigation	-	(12)	(7)	411
Consumption of zero cost-basis inventory	(1,142)	(602)	(3,635)	(1,389)
Change in fair value of derivatives and warrants	(535)	(5,217)	(1,890)	(6,114)
Non-cash interest expense	1,137	3,867	5,902	8,404
Non-GAAP net loss	$ (5,725)	$ (13,506)	$ (24,736)	$ (40,421)
Non-GAAP loss per share	$ (0.09)	$ (0.26)	$ (0.41)	$ (0.78)
Weighted average shares outstanding	62,309	52,792	60,578	51,966

We incurred a non-GAAP net loss of $5.7 million and $24.7 million or $0.09 and $0.41 per share, for the three and nine months ended December 31, 2013, respectively, compared to a non-GAAP net loss of $13.5 million and $40.4 million, or $0.26 and $0.78 per share, for the three and nine months ended December 31, 2012, respectively. The decreases in the non-GAAP net loss were driven primarily by lower net losses as a result of cost reductions undertaken in fiscal 2012 and 2013 partially offset by a decrease in adverse purchase commitment recovery from the prior year and lower gains resulting from the change in fair value of derivatives and warrants.

Liquidity and Capital Resources

At December 31, 2013, we had cash, cash equivalents, and restricted cash of $41.7 million, compared to $50.2 million at March 31, 2013, a decrease of $8.5 million. Our cash and cash equivalents, and restricted cash are summarized as follows (in thousands):

	December 31, 2013	March 31, 2013
Cash and cash equivalents	$ 35,394	$ 39,243
Restricted cash	6,306	10,956
Total cash, cash equivalents, marketable securities and restricted cash	$ 41,700	$ 50,199

With respect to the unaudited condensed consolidated statement of cash flows, for the nine months ended December 31, 2013, net cash used in operating activities was $18.4 million compared to $40.7 million for the nine months ended December 31, 2012. The decrease in net cash used in operations is due primarily to a lower net loss, net of non-cash adjustments, as well as less cash used for changes in operating asset and liability accounts.

For the nine months ended December 31, 2013, net cash provided by investing activities was $4.4 million, compared to $4.7 million for the nine months ended December 31, 2012. The decrease in net cash provided by investing activities for the nine months ended December 31, 2013 was driven primarily by proceeds from maturity of marketable securities during the nine months ended December 31, 2012, partially offset by the net reduction in restricted cash during the nine months ended December 31, 2013.

For the nine months ended December 31, 2013, net cash provided by financing activities was $9.8 million compared to $32.3 million cash provided by financing activities in the nine months ended December 31, 2012. The decrease in net cash provided by financing activities is primarily due lower proceeds from the issuance of debt during the nine months ended December 31, 2013.

At December 31, 2013, we had $1.4 million of restricted cash included in current assets, and $4.9 million of restricted cash included in long-term assets. These amounts included in restricted cash primarily represent deposits to secure letters of credit for various supply contracts. These deposits are held in interest bearing accounts.

We have experienced recurring operating losses and as of December 31, 2013, had an accumulated deficit of $833.7 million. In addition, we have experienced recurring negative operating cash flows, which have resulted in a decrease in our cash balance. These factors raise substantial doubt regarding our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from this outcome of this uncertainty. At December 31, 2013 we had cash and cash equivalents of $35.4 million. Cash used in operations for the nine months ended December 31, 2013, was $18.4 million.

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

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

- Allowed us to convert, subject to the satisfaction of certain conditions set forth in the Exchanged Note, (a) at least $2.5 million of the approximately $5.3 million installment amount payable with respect to the January 2013 installment date (including approximately $4.2 million of deferred installment amounts from the period September 4, 2012 to December 3, 2012) into shares of our common stock (on December 21, 2012 we converted $3.8 million in deferred installment amount principal and interest and issued 1,715,443 shares of common stock), and (b) the balance of the January 2013 installment amount in equal amounts on each of the February and March 2013 installment dates;
- Reduced the price failure equity condition with respect to a particular date of determination from $2.50 to $1.00;
- Reduced the aggregate daily dollar trading volume equity condition required for at least 25 of the 30 consecutive trading days immediately preceding a date of determination from $1,500,000 to $850,000 per trading day. In addition, if the aggregate daily dollar trading volume is between $50,000 and $850,000, we may still convert into common stock a portion of an installment amount payable with respect to an installment date equal to the quotient of (x) the aggregate daily dollar trading volume, divided by (y) $850,000;
- Increased CVI’s beneficial ownership limitation under the Exchanged Note from 4.99% to 9.99%; and
- Reduced the conversion price, from $4.85 per share of our common stock to $3.19 per share of our common stock, subject to certain price-based and other anti-dilution adjustments.

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

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

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

we and CVI amended the Exchanged Note:

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

to increase the aggregate outstanding principal amount under the definition of “permitted senior indebtedness” from $10 million to $15 million; and

we and CVI exchanged the Original Warrant for a new Warrant with a reduced exercise price of $2.61 per share of common stock.

On June 5, 2012, we entered into the Term Loan with Hercules, under which we borrowed $10.0 million. After the closing fees and expenses, the net proceeds were $9.7 million. The Term Loan bears an interest rate equal to 11% plus the percentage, if any, in which the prime rate as reported by The Wall Street Journal exceeds 3.75%. We made interest only payments from July 1, 2012 through October 31, 2012, after which we began paying the Term Loan in equal monthly installments ending on December 1, 2014.

On November 15, 2013, we amended the Term Loan with Hercules and entered into the New Term Loan (collectively with the Term Loan, the "Term Loans"), borrowing an additional $10.0 million. After closing fees and expenses, we received net proceeds of $9.8 million. The New Term Loan also bears the same interest rate as the Term Loan. We are making interest-only payments from December 1, 2013 to May 31, 2014. If we achieve certain revenue targets for the six-month period ending March 31, 2014, interest only payments will continue through August 31, 2014. Once the interest-only period ends, we will repay the New Term Loan in equal monthly installments ending on November 1, 2016.

The Term Loans are secured by substantially all of our existing and future assets, including a mortgage on real property owned by our wholly owned subsidiary, ASC Devens LLC, and located at 64 Jackson Road, Devens, Massachusetts. The Term Loans contain certain covenants that restrict our ability to, among other things, incur or assume certain debt, merge or consolidate, materially change the nature of our business, make certain investments, acquire or dispose of certain assets, make guaranties or grant liens on its assets, make certain loans, advances or investments, declare dividends or make distributions or enter into transactions with affiliates. In addition, the Term Loans contain a covenant which requires us to maintain a minimum unrestricted cash balance in the United States of at least $15.0 million at the inception of the New Term Loan. This amount will be reduced by $2.5 million for every $5.0 million of net proceeds from the sale of our common stock after November 15, 2013, including those under the ATM, to an amount not lower than $7.5 million or the outstanding combined principal balances of the Term Loans, whichever is lower. 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, the lender may, among other remedies, declare due all unpaid principal amounts outstanding and any accrued but unpaid interest and foreclose on all collateral granted to the lender as security under the Term Loans.

We believe we are in and expect to remain in compliance with the covenants and restrictions under the Exchanged Note and 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 of one or both of our debt obligations. In the case of the Exchanged Note, such an event of default would also include the requirement to pay a penalty as defined in the agreement. Should this occur, our liquidity would be adversely affected.

On November 15, 2013, we entered into an ATM arrangement, pursuant to which, we may, at our discretion, sell up to $30.0 million our common stock through our sales agent, MLV. Sales of common stock made under the ATM are made on the NASDAQ Global Market under our previously filed and currently effective Registration Statement on Form S-3 (File No. 333-191153) by means of ordinary brokers' transactions at market prices. Additionally, under the terms of the ATM, we may also sell shares of our common stock through MLV, on the NASDAQ Global Market or otherwise, at negotiated prices or at prices related to the prevailing market price. Under the terms of the ATM, MLV may not engage in any proprietary trading or trading as principal for MLV's own account. MLV uses its commercially reasonable efforts to sell our common stock from time to time, based upon the our instructions (including any price, time or size limits or other customary parameters or conditions we may impose). We pay MLV a commission of up to 3% of the gross proceeds from the sale of shares of our common stock under the ATM. We have also agreed to provide MLV with customary indemnification rights. The offering of common stock pursuant to the ATM will terminate upon the earlier of the sale of all of the common stock subject to the ATM and the termination of the ATM by us or MLV. Either party may terminate the ATM its sole discretion at any time upon written notice to the other party. During the three months ended December 31, 2013, we received net proceeds of $3.3 million, including sales commissions and offering expenses, from sales of approximately 2.4 million shares of our common stock at an average sales price of approximately $1.51 per share under the ATM.

In order for us to continue operations beyond the next twelve months and be able to discharge our liabilities and commitments in the normal course of business, we need to increase sales through executing our strategy to broaden our customer base, enter new markets, and commercialize our superconductor product line. Otherwise, we may need to further reduce operating expenses in line with business conditions in order to decrease the amount of cash used in operations. We intend to continue to work with the holder of our convertible note in order to maintain the ability to make monthly amortization payments on the convertible note in shares of common stock. In addition, we are actively seeking to sell our minority investments in Tres Amigas and Blade Dynamics and have recently engaged a financial advisor to assist with that effort. In addition, we maintain the ability to sell shares of our common stock under the ATM at our discretion to enhance liquidity.

We must successfully execute on our plans to improve operating performance discussed above, raise additional capital either through the sale of one or both of its minority investments, or through the sale of shares of our common stock at our discretion under the ATM, and maintain the ability to pay monthly installment payments under the Exchanged Note in shares of common stock to ensure that we have sufficient cash to fund our operations, capital expenditures and scheduled cash payments under our debt obligations through December 31, 2014. Our ability to pay required monthly installment payments under the Exchanged Note in equity instead of cash is based on certain stock price and trading volume conditions that are outside of our control. If one or both of these equity conditions are not met (absent a waiver from the lender), we may be required to make required monthly installment payments in cash. As of the date of this Quarterly Report on Form 10-Q, we have only made payments to the lender in shares of common stock and as a result the principal balance has been reduced by $14.6 million to $10.4 million through December 31, 2013. If we fail one or both of the equity conditions, we can still make required payments in stock if the lender agrees to waive our compliance with the relevant equity conditions, which it has done in the past. There is no assurance that the lender will provide any waivers in the future. Our liquidity is highly dependent on the factors discussed above and our ability to maintain compliance with the covenants and restrictions on our debt obligations (or obtain waivers from our lenders in the event of non-compliance). There can be no assurance that we will be able to raise additional capital or sell one or both of these investments on commercially reasonable terms or at all.

Legal Proceedings

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

Off-Balance Sheet Arrangements

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

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

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

Recent Accounting Pronouncements

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

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

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

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Cash and cash equivalents

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

Foreign currency exchange risk

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

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

Foreign currency transaction impacts included in net loss were a loss of $0.1 million and $0.2 million for the three and nine months ended December 31, 2013, respectively, and a loss of $0.2 million and gain of $0.2 million for the three and nine months ended December 31, 2012, respectively.

Stock Price and Dollar Trading Volume Risk

Our ability to pay required monthly installment payments under the Exchanged Note in equity instead of cash is based on certain stock price and trading volume conditions that are outside of our control. In order to make monthly installment payments under the Exchanged Note entirely in stock, the price of our common stock must remain above $1.00 per share and the average aggregate daily dollar trading volume of our common stock must be above $850,000. We may still pay a portion of the monthly installment payments under the Exchanged Note in stock, if the aggregate daily dollar trading volume is between $50,000 and $850,000, in an amount equal to the quotient of (x) the aggregate daily dollar trading volume, divided by (y) $850,000. We currently intend to make payments in equity whenever the equity conditions are met. If one or both of these equity conditions are not met (absent a waiver from the lender), we may be required to make required monthly installment payments in cash. As of the date of this Form 10-Q, we have only made payments to the lender in shares of common stock, in part because the lender has provided waivers of the equity conditions in the past. There is no assurance that the lender will provide any waivers in the future.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2013. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation of our disclosure controls and procedures as of December 31, 2013, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Between April 6, 2011 and May 12, 2011, seven putative securities class action complaints were filed against us and two of our officers in the United States District Court for the District of Massachusetts; one complaint additionally asserted claims against the underwriters who participated in our November 12, 2010 securities offering. On June 7, 2011, the United States District Court for the District of Massachusetts (the "Court") consolidated these actions under the caption Lenartz v. American Superconductor Corporation, et al., Docket No. 1:11-cv-10582-WGY. On August 31, 2011, Lead Plaintiff, the Plumbers and Pipefitters National Pension Fund, filed a consolidated amended complaint against us, our officers and directors, and the underwriters who participated in our November 12, 2010 securities offering, asserting claims under sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated under the Exchange Act, as well as under sections 11, 12(a)(2) and 15 of the Securities Act of 1933 (the "Securities Act"). The complaint alleges that during the relevant class period, we and our officers omitted to state material facts and made materially false and misleading statements relating to, among other things, our projected and recognized revenues and earnings, as well as our relationship with Sinovel Wind Group Co., Ltd. ("Sinovel") that artificially inflated the value of our stock price. The complaint further alleges that our November 12, 2010 securities offering contained untrue statements of material facts and omitted to state material facts required to be stated therein. The plaintiffs seek unspecified damages, rescindment of our November 12, 2010 securities offering, and an award of costs and expenses, including attorney's fees. All defendants moved to dismiss the consolidated amended complaint. On December 16, 2011, the district court issued a summary order declining to dismiss the Securities Act claims against us and our officers, and taking under advisement the motion to dismiss the Exchange Act claims against us and our officers and the motion to dismiss the Securities Act claims made against the underwriters. On July 26, 2012, the district court dismissed the Exchange Act claims against us and our officers and denied the motion to dismiss the Securities Act claims made against the underwriters. On November 19, 2013, we entered into a Stipulation and Agreement of Settlement (the "Stipulation"), which will resolve the claims asserted against us, certain of our current and former officers and directors, and the underwriters. The terms of the Stipulation provide, among other things, a settlement payment by us of $10.0 million, $8.2 million of which will be funded by our insurers and $1.8 million of which is expected to be paid through the issuance of 944,882 shares of our common stock (the "Settlement Shares"). In the event that the value of the Settlement Shares (as calculated under the Stipulation) decreases as of the effective date of the settlement, we are required to make a cash payment for the difference in value. As of March 31, 2013, we have established a reserve for the anticipated cost to settle this class action litigation. The terms of the Stipulation are subject to approval by the Court following notice to all class members. The issuance of the Settlement Shares is expected to be exempt from registration pursuant to Section 3(a)(10) of the Securities Act of 1933, as amended. Based on our assessment of the probable losses on this claim, we have recorded a loss contingency of $1.8 million as of December 31, 2013.

Between May 4, 2011 and June 17, 2011, four putative shareholder derivative complaints were filed against us (as a nominal defendant) and certain of our directors in the United States District Court for the District of Massachusetts. On July 5, 2011, the District Court consolidated three of these actions, and that matter is now captioned In re American Superconductor Corporation Derivative Litigation, Docket No. 1:11-cv-10784-WGY. On June 1, 2011, the plaintiff in the fourth action, Marlborough Family Revocable Trust v. Yurek, et al., moved to voluntarily dismiss its complaint and refiled its complaint in Superior Court for the Commonwealth of Massachusetts, Middlesex County. On September 7, 2011, the Marlborough action and another putative shareholder derivative complaint filed in Superior Court for the Commonwealth of Massachusetts were consolidated. That consolidated matter is captioned In re American Superconductor Corporation Shareholder Derivative Litigation, Docket No. 11-1961. On January 12, 2012, an additional shareholder derivative complaint was filed in the Court of Chancery for the State of Delaware. That matter is captioned Krasnoff v. Budhraja, et al., Docket No. 7171. The allegations of the derivative complaints mirror the allegations made in the putative class action complaints described above. The plaintiffs purport to assert claims against the director defendants for breach of fiduciary duty, abuse of control, gross mismanagement, unjust enrichment and corporate waste. On February 4, 2014, we entered into a Stipulation and Agreement of Settlement (the “Derivative Stipulation”) to settle In re American Superconductor Corporation Derivative Litigation, In re American Superconductor Corporation Shareholder Derivative Litigation, and Krasnoff v. Budhraja, et al., (together, the “Derivative Actions”). The Derivative Actions named certain current and former directors and officers as defendants. The current and former directors and officers named as individual defendants have denied expressly and continue to deny each and all of the claims and contentions alleged against them, and neither the individual defendants nor we have admitted any fault, wrongdoing or concession of liability in connection with the terms of the Derivative Stipulation. The Derivative Stipulation will be filed with the Court within five business days of February 4, 2014. The Derivative Stipulation provides for, among other things, (a) a release of all claims relating to the Derivative Actions for us, the individual defendants, who are all current or former officers and directors, and the plaintiffs; (b) a requirement that we pay to plaintiffs’ counsel $475,000.00 for fees and expenses, which will be fully funded by our insurers; and (c) certain additions to our corporate governance policies, many of which have already been implemented. The Derivative Stipulation remains subject to preliminary and final approval by the Court and certain other conditions, including notice to stockholders. At this time, there can be no assurance that the Derivative Stipulation will receive the required approvals or that the settlement will become final. Based on our assessment that the probable losses on this claim are insignificant, no loss contingency was recorded as of December 31, 2013.

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

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

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

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

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

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

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

ITEM 1A. RISK FACTORS

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

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

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

SIGNATURE

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

		AMERICAN SUPERCONDUCTOR CORPORATION
Date:	February 6, 2014	By: /s/ David A. Henry
		David A. Henry
		Senior Vice President and Chief Financial Officer
		(Principal Financial and Accounting Officer)

EXHIBIT INDEX

		Incorporated by Reference				
Exhibit					Filing	Filed
Number	Exhibit Description	Form	File No.	Exhibit	Date	Herewith
4.1	Warrant Agreement, dated as of November 15, 2013, between the Registrant and Hercules Technology Growth Capital, Inc.	8-K	000-19672	4.1	11/18/13	
4.2	First Amendment, dated November 15, 2013, to the Warrant Agreement, dated as of June 5, 2012, between the Registrant and Hercules Technology Growth Capital, Inc.	8-K	000-19672	4.2	11/18/13	
10.1	First Amendment to Loan and Security Agreement, by and between the Registrant and Hercules Technology Growth Capital, Inc., dated as of November 15, 2013.	8-K	000-19672	10.1	11/18/13	
10.2	At Market Issuance Sales Agreement, dated as of November 15, 2013, by and between the Registrant and MLV & Co. LLC.	8-K	000-19672	10.2	11/18/13	
10.3	First Modification to Mortgage and Security Agreement, dated as of November 15, 2013, by and between the Registrant and Hercules Technology Growth Capital, Inc.					*
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. ***

** 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, 2013 and March 31, 2013 (ii) Condensed Statements of Operations and Income for the three and nine months ended December 31, 2013 and 2012,
(iii) Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and nine months ended December 31, 2013 and 2012, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2013 and 2012, and (v) Notes to Condensed Consolidated Financial Statements.

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