

AMERICAN SUPERCONDUCTOR CORP /DE/

Form 10-Q

August 07, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: June 30, 2008

.. 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.)

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64 Jackson Road, Devens, Massachusetts

(Address of principal executive offices)

01434

(Zip Code)

(978) 842-3000

(Registrant's telephone number, including area code)

N/A

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

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

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

(Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐
(Do not check if a smaller reporting company)

Smaller reporting company ☐

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

Shares outstanding of the Registrant's common stock:

Common Stock, par value \$0.01 per share
Class

43,072,696
Outstanding as of August 4, 2008

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AMERICAN SUPERCONDUCTOR CORPORATION

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

	June 30, 2008	March 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 69,570	\$ 67,834
Marketable securities	48,301	38,398
Accounts receivable, net	33,042	37,108
Inventory	12,033	10,907
Restricted cash	11,754	12,312
Prepaid expenses and other current assets	6,411	4,467
Deferred tax assets, net	896	2,293
Total current assets	182,007	173,319
Property, plant and equipment, net	54,323	54,308
Goodwill	23,011	18,530
Intangibles, net	11,184	11,583
Long-term restricted cash	1,856	860
Other assets	2,727	2,634
Total assets	\$ 275,108	\$ 261,234
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	39,307	38,356
Deferred revenue	11,025	10,629
Total current liabilities	50,332	48,985
Non-current liabilities:		
Deferred revenue	3,378	2,043
Deferred tax liabilities, net	1,147	1,244
Other non-current liabilities	64	510
Total liabilities	54,921	52,782
Commitments and contingencies		
Stockholders' equity:		
Common stock	430	415

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Additional paid-in capital	632,924	615,025
Deferred contract costs - warrant	(6)	(8)
Accumulated other comprehensive income	3,444	3,522
Accumulated deficit	(416,605)	(410,502)
Total stockholders' equity	220,187	208,452
Total liabilities and stockholders' equity	\$ 275,108	\$ 261,234

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

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

	For three months ended June 30,	
	2008	2007
Revenues	\$ 39,817	\$ 19,769
Costs and expenses:		
Costs of revenue	28,196	16,187
Research and development	4,913	4,214
Selling, general and administrative	8,893	6,118
Amortization of acquisition related intangibles	503	1,162
Restructuring and impairments		818
Total costs and expenses	42,505	28,499
Operating loss	(2,688)	(8,730)
Interest income	775	346
Other income (expense), net	(2,471)	(1,014)
Loss before income tax expense	(4,384)	(9,398)
Income tax expense	1,719	255
Net loss	\$ (6,103)	\$ (9,653)
Net loss per common share		
Basic and Diluted	\$ (0.15)	\$ (0.27)
Weighted average number of common shares outstanding		
Basic and Diluted	41,686	35,268

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

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AMERICAN SUPERCONDUCTOR CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

	For the three months ended June 30,	
	2008	2007
Net loss	\$ (6,103)	\$ (9,653)
Other comprehensive income/(loss)		
Foreign currency translation	65	126
Change in unrealized gain/(loss) on investments	(143)	9
Other comprehensive income/(loss)	(78)	135
Comprehensive loss	\$ (6,181)	\$ (9,518)

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

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

	For the three months ended June 30,	
	2008	2007
Cash flows from operating activities:		
Net loss	\$ (6,103)	\$ (9,653)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	2,124	2,310
Stock-based compensation expense	2,299	1,077
Stock-based compensation expense non-employee	78	83
Impairment charges on long-lived assets		607
Inventory write-down charges		933
Re-valuation of warrant	2,396	986
Deferred income taxes	1,300	85
Other non-cash items	427	8
Changes in operating asset and liability accounts, excluding the effect of acquisitions:		
Accounts receivable	3,891	(2,694)
Inventory	(1,126)	(179)
Prepaid expenses and other current assets	(1,944)	(352)
Accounts payable and accrued expenses	(1,890)	(4,722)
Deferred revenue	1,731	3,247
Net cash provided by (used in) operating activities	3,183	(8,264)
Cash flows from investing activities:		
Purchase of property, plant and equipment, net	(1,526)	(1,479)
Purchase of marketable securities	(31,648)	(11,977)
Proceeds from the maturity of marketable securities	21,602	16,042
Increase in restricted cash	(438)	(674)
Acquisition costs, net of cash acquired in acquisitions		(102)
Purchase of intangible assets	(375)	(329)
Change in other assets	(30)	17
Net cash provided by (used in) investing activities	(12,415)	1,498
Cash flows from financing activities:		
Proceeds from exercise of employee stock options	10,913	5,971
Net cash provided by financing activities	10,913	5,971
Effect of exchange rate changes on cash and cash equivalents	55	12
Net increase (decrease) in cash and cash equivalents	1,736	(783)
Cash and cash equivalents at beginning of period	67,834	15,925
Cash and cash equivalents at end of period	\$ 69,570	\$ 15,142

Supplemental schedule of cash flow information:

Issuance of common stock in connection with acquisitions	\$	\$ 4,349
Noncash issuance of common stock		147
Noncash contingent consideration in connection with acquisitions		4,481

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

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AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Business and Basis of Presentation

American Superconductor Corporation (the Company or AMSC) was founded on April 9, 1987. The Company is an energy technologies company, offering an array of solutions based on two proprietary technologies: programmable power electronic converters and high temperature superconductor (HTS) wires. The Company's products, services and system-level solutions enable cleaner, more efficient and more reliable generation, delivery and use of electric power. The programmability and scalability of the Company's power electronic converters differentiate them from most competitive offerings. The two primary markets the Company serves are the wind energy market and the power transmission and distribution or power grid market. The Company operates in two business segments: AMSC Power Systems and AMSC Superconductors.

These unaudited condensed consolidated financial statements of the Company have been prepared in accordance with the Securities and Exchange Commission's (SEC) instructions to Form 10-Q. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States 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 accounting principles generally accepted in the United States of America. The unaudited condensed consolidated financial statements, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim periods ended June 30, 2008 and 2007 and the financial position at June 30, 2008. The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation.

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, 2008 which are contained in the Company's Annual Report on Form 10-K, filed with the SEC on May 29, 2008.

New Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS No. 161 amends and expands the disclosure requirements related to derivative instruments and hedging activities. The Statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The provisions of SFAS No. 161 are effective for the fiscal years beginning on or after January 1, 2009. The Company is currently evaluating the impact of the provisions of SFAS No. 161 for an implementation on April 1, 2009.

In December 2007, the FASB issued SFAS No. 141(R) (revised 2007), Business Combinations, which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008. Although there are not any current plans for an acquisition, should there be an acquisition in the future, the Company will adopt this statement for acquisitions consummated after its effective date.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. SFAS No. 157 also expands financial statement disclosures about fair value measurements. On February 12, 2008, the FASB issued FASB Staff Position (FSP) 157-2 which delays the effective date of SFAS No. 157 for one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 and FSP 157-2 are effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has elected a partial deferral of SFAS No. 157 under the provisions of FSP 157-2 related to the measurement of fair value used when evaluating goodwill, other intangible assets and other long-lived assets for impairment and valuing asset retirement obligations and liabilities for exit or disposal activities. The partial adoption of SFAS No. 157 on April 1, 2008 did not have a material impact on the Company's condensed consolidated financial statements.

Table of Contents**AMERICAN SUPERCONDUCTOR CORPORATION****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued****2. Stock-Based Compensation**

The Company accounts for its stock-based compensation under the fair value recognition provisions of SFAS No. 123(R), Share-Based Payments. The following table summarizes employee stock-based compensation expense under SFAS 123(R) by financial statement line item for the three months ended June 30, 2008 and 2007 (in thousands):

	Three months ended June 30,	
	2008	2007
Costs of revenue	\$ 328	\$ 97
Research and development	554	254
Selling, general and administrative	1,417	726
Total	\$ 2,299	\$ 1,077

During the quarter ended June 30, 2008, the Company granted approximately 500,000 shares of restricted stock and stock options to employees under the 2007 Stock Incentive Plan. The fair value of the grant was \$12.9 million, which is being recorded into expense over either the vesting period or the performance period, as appropriate. The grant included approximately 140,000 shares of restricted stock, which will vest upon achievement of certain financial performance measurements. At June 30, 2008, the Company determined that achievement of the performance measures is probable and as such, is recognizing the fair value of the performance-based awards over the estimated performance period.

The total unrecognized compensation cost for unvested employee stock-based compensation awards outstanding, net of forfeitures, was \$17.9 million at June 30, 2008. This expense will be recognized over a weighted-average expense period of 1.7 years.

The assumptions used in the Black-Scholes valuation model for stock options granted during the three months ended June 30, 2008 and 2007 are as fo