AMERICAN SUPERCONDUCTOR CORP /DE/
Form 10-Q
November 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: September 30, 2014

¨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<br>(State or other jurisdiction of incorporation or organization) | 04-2959321<br>(I.R.S. Employer Identification No.) |
| 64 Jackson Road, Devens, Massachusetts<br>(Address of principal executive offices) | 01434<br>(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:

| Class | Outstanding as of November 3, 2014 |
|---|---|
| Common Stock, par value $0.01 per share | 86,507,099 |

AMERICAN SUPERCONDUCTOR CORPORATION

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AMERICAN SUPERCONDUCTOR CORPORATION

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

| | September 30, 2014 | March 31, 2014 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $34,679 | $43,114 |
| Accounts receivable, net | 9,673 | 7,556 |
| Inventory | 24,460 | 20,694 |
| Prepaid expenses and other current assets | 10,280 | 9,004 |
| Restricted cash | 3,425 | 2,913 |
| Total current assets | 82,517 | 83,281 |
| | | |
| Property, plant and equipment, net | 60,388 | 64,574 |
| Intangibles, net | 1,708 | 1,995 |
| Restricted cash | 100 | 3,394 |
| Deferred tax assets | 7,724 | 7,724 |
| Other assets | 3,410 | 7,541 |
| | | |
| Total assets | $155,847 | $168,509 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $23,537 | $21,764 |
| Accrued arbitration liability | 10,631 | - |
| Note payable, current portion, net of discount of $361 as of September 30, 2014 and $555 as of March 31, 2014 | 4,793 | 6,240 |
| Derivative liabilities | 1,841 | 2,601 |
| Deferred revenue | 17,591 | 9,456 |
| Deferred tax liabilities | 7,724 | 7,761 |
| Total current liabilities | 66,117 | 47,822 |
| | | |
| Note payable, net of discount of $137 as of September 30, 2014 and $287 as of March 31, 2014 | 4,529 | 6,380 |
| Deferred revenue | 2,895 | 990 |
| Other liabilities | 965 | 1,058 |
| Total liabilities | 74,506 | 56,250 |
| | | |

| | | |
|---|---|---|
| Commitments and contingencies (Note 13) | | |
| | | |
| Stockholders' equity: | | |
| Common stock | 860 | 789 |
| Additional paid-in capital | 975,831 | 966,390 |
| Treasury stock | (771) | (370) |
| Accumulated other comprehensive income | 749 | 1,839 |
| Accumulated deficit | (895,328) | (856,389) |
| Total stockholders' equity | 81,341 | 112,259 |
| | | |
| Total liabilities and stockholders' equity | $155,847 | $168,509 |

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

AMERICAN SUPERCONDUCTOR CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

| | Three months ended September 30, | | Six months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $12,455 | $24,181 | $24,151 | $47,267 |
| Cost and operating expenses: | | | | |
| Cost of revenues | 13,773 | 22,611 | 25,860 | 40,598 |
| Research and development | 3,078 | 3,083 | 6,198 | 6,110 |
| Selling, general and administrative | 8,046 | 8,682 | 15,984 | 19,508 |
| Arbitration award expense | 10,188 | - | 10,188 | - |
| Restructuring and impairments | 3,731 | 751 | 4,909 | 764 |
| Amortization of acquisition related intangibles | 39 | 82 | 79 | 164 |
| Total cost and operating expenses | 38,855 | 35,209 | 63,218 | 67,144 |
| Operating loss | (26,400) | (11,028) | (39,067) | (19,877) |
| Change in fair value of derivatives and warrants | 795 | 886 | 760 | 1,355 |
| Interest expense, net | (496) | (3,505) | (1,030) | (5,617) |
| Other income (expense), net | 740 | (635) | 588 | (566) |
| Loss before income tax expense | (25,361) | (14,282) | (38,749) | (24,705) |
| Income tax expense | 62 | 341 | 190 | 430 |
| Net loss | $(25,423) | $(14,623) | $(38,939) | $(25,135) |
| Net loss per common share | | | | |
| Basic | $(0.31) | $(0.24) | $(0.49) | $(0.42) |
| Diluted | $(0.31) | $(0.24) | $(0.49) | $(0.42) |
| Weighted average number of common shares outstanding | | | | |
| Basic | 81,471 | 61,116 | 79,590 | 59,712 |
| Diluted | 81,471 | 61,116 | 79,590 | 59,712 |

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 September 30, | | Six months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net loss | $(25,423) | $(14,623) | $(38,939) | $(25,135) |
| | | | | |
| Other comprehensive loss, net of tax: | | | | |
| Foreign currency translation (losses) gains | (989) | 691 | (1,090) | 656 |
| Total other comprehensive (loss) income, net of tax | (989) | 691 | (1,090) | 656 |
| Comprehensive loss | $(26,412) | $(13,932) | $(40,029) | $(24,479) |

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

AMERICAN SUPERCONDUCTOR CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

| | Six months ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net loss | $(38,939) | $(25,135) |
| Adjustments to reconcile net loss to net cash used in operations: | | |
| Depreciation and amortization | 4,901 | 5,343 |
| Stock-based compensation expense | 3,099 | 4,287 |
| Impairment of long-lived and intangible assets | 3,464 | - |
| Provision for excess and obsolete inventory | 1,285 | 192 |
| Loss on minority interest investments | 410 | 499 |
| Change in fair value of derivatives and warrants | (760) | (1,355) |
| Non-cash interest expense | 343 | 4,765 |
| Other non-cash items | (860) | 892 |
| Changes in operating asset and liability accounts: | | |
| Accounts receivable | (2,264) | 10,704 |
| Inventory | (5,283) | 9,315 |
| Prepaid expenses and other current assets | (1,533) | 3,531 |
| Accounts payable and accrued expenses | 4,154 | (8,944) |
| Accrued arbitration liability | 10,188 | - |
| Deferred revenue | 10,426 | (18,873) |
| Net cash used in operating activities | (11,369) | (14,779) |
| | | |
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | (514) | (115) |
| Proceeds from the sale of property, plant and equipment | 8 | - |
| Change in restricted cash | 2,782 | 4,053 |
| Change in other assets | (12) | (495) |
| Net cash provided by investing activities | 2,264 | 3,443 |
| | | |
| Cash flows from financing activities: | | |
| Employee taxes paid related to net settlement of equity awards | (400) | (57) |
| Repayment of debt | (3,641) | (2,308) |
| Proceeds from ATM sales, net | 4,825 | - |
| Proceeds from exercise of employee stock options and ESPP | 60 | 99 |
| Net cash provided by (used in) financing activities | 844 | (2,266) |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | (174) | 226 |
| | | |
| Net decrease in cash and cash equivalents | (8,435) | (13,376) |
| Cash and cash equivalents at beginning of year | 43,114 | 39,243 |
| Cash and cash equivalents at end of year | $34,679 | $25,867 |

| | | |
|---|---|---|
| Supplemental schedule of cash flow information: | | |
| Cash paid for income taxes, net of refunds | $226 | $- |
| Issuance of common stock to settle liabilities | 1,528 | 7,831 |
| Cash paid for interest | 684 | 400 |

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

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of the Business and Operations and Liquidity

Nature of the Business and Operations

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

These unaudited condensed consolidated financial statements of the Company have been prepared on a going concern basis in accordance with United States generally accepted accounting principles ("GAAP") and the Securities and Exchange Commission's ("SEC") instructions to Form 10-Q. The going concern basis of presentation assumes that the Company will continue operations and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those instructions. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. The unaudited condensed consolidated financial statements, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim periods ended September 30, 2014 and 2013 and the financial position at September 30, 2014.

Liquidity

The Company has experienced recurring operating losses and as of September 30, 2014, the Company had an accumulated deficit of $895.3 million. In addition, the Company has experienced recurring negative operating cash flows. At September 30, 2014, the Company had cash and cash equivalents of $34.7 million. Cash used in operations for the six months ended September 30, 2014 was $11.4 million. On August 29, 2014, the Arbitration Tribunal for the ICC International Court of Arbitration (the "ICC Court") found the Company liable for damages in its breach of contract proceeding against Ghodawat Energy Pvt Ltd ("Ghodawat") and awarded Ghodawat approximately €8.3 million (approximately $10.6 million) plus interest of 5.33%, which accrues from the date of award. As of the date of this filing, the Company has not paid this award. See Note 13, "Commitments and Contingencies" for further information.

From April 1, 2011 through the date of this filing, the Company has reduced its global workforce substantially. The Company is currently in the process of consolidating certain business operations to reduce facility costs. As of September 30, 2014, the Company had a global workforce of approximately 291 persons. The Company plans to closely monitor its expenses and if required, expects to further reduce operating costs and capital spending to enhance liquidity.

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

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 ("MLV"). During the three months ended September 30, 2014, the Company received net proceeds of $3.7 million, including sales and commissions and offering expenses, from sales of approximately 2.1 million shares of its common stock at an average sales price of approximately $1.75 per share under the ATM. (See Note 12, "Stockholders' Equity", for further information regarding the ATM.) At September 30, 2014, there was approximately $17.1 million of availability under the Company's ATM (see further discussion below). Sales of common stock under the ATM may be made from time to time, at the Company's discretion, in order to enhance liquidity.

The Company expects that it will require additional capital, either from sales under the ATM or other sources, to fund its operations, including the Ghodawat arbitration award liability, capital expenditures and scheduled cash payments under its debt obligations through September 30, 2015. The Company's plans include, and its liquidity is highly dependent on, its ability to increase revenues, its ability to control its operating costs, its ability to utilize the ATM to raise additional capital or raise capital from other sources, and its ability to maintain compliance with the covenants and restrictions on its debt obligations (or obtain waivers from its lender in the event of non-compliance). There can be no assurance that the Company will be able to continue to utilize the ATM or raise capital from other sources.

In addition, the Company is actively seeking to sell its minority investment in Tres Amigas, LLC, a Delaware limited liability Company ("Tres Amigas"). The Company no longer believes its investment in Blade Dynamics is recoverable and fully impaired its remaining investment in Blade Dynamics Ltd. ("Blade Dynamics") during the three months ended September 30, 2014. (See Note 14, "Minority Investments", for further information about such investments.) There can be no assurance that the Company will be able to sell these investments on commercially reasonable terms or at all.

2. Stock-Based Compensation

The Company accounts for its stock-based compensation at fair value. The following table summarizes stock-based compensation expense by financial statement line item for the three and six months ended September 30, 2014 and 2013 (in thousands):

| | Three months ended September 30, | | Six months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Cost of revenues | $194 | $224 | $346 | $429 |
| Research and development | 521 | 585 | 1,000 | 1,159 |
| Selling, general and administrative | 803 | 1,343 | 1,753 | 2,699 |
| Total | $1,518 | $2,152 | $3,099 | $4,287 |

During the six months ended September 30, 2014, the Company granted 1,000,000 stock options, and 3,192,502 restricted stock awards. During the six months ended September 30, 2013, the Company granted approximately 831,000 stock options, 400,000 time-based restricted stock awards, 362,000 performance-based restricted stock awards, and issued 212,000 shares of common stock in-lieu of cash bonuses and severance payments issued. The stock options vest generally over 3-5 years, and the time-based restricted stock awards vest generally over three 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 based on probability of achievement.

The estimated fair value of the Company's stock-based awards, less expected annual forfeitures, is amortized over the awards' service period. The total unrecognized compensation cost for unvested outstanding stock options was $1.8 million at September 30, 2014. This expense will be recognized over a weighted average expense period of approximately 3.0 years. The total unrecognized compensation cost for unvested outstanding restricted stock was $4.6 million at September 30, 2014. This expense will be recognized over a weighted-average expense period of approximately 1.6 years.

The weighted-average assumptions used in the Black-Scholes valuation model for stock options granted during the three and six months ended September 30, 2014 and 2013 are as follows:

| | Three months ended September 30, | | Six months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Expected volatility | N/A | 75.4% | 85.5% | 75.1% |
| Risk-free interest rate | N/A | 1.7 % | 1.9 % | 1.7 % |
| Expected life (years) | N/A | 5.8 | 5.8 | 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.

3. Computation of Net Loss per Common Share

Basic net loss per share ("EPS") is computed by dividing net loss by the weighted-average number of common shares outstanding for the period. Where applicable, diluted EPS is computed by dividing the net loss by the weighted-average number of common shares and dilutive common equivalent shares outstanding during the period, calculated using the treasury stock method. Common equivalent shares include the effect of restricted stock, exercise of stock options and warrants and contingently issuable shares. For each of the three and six months ended September 30, 2014, 7.4 million shares were not included in the calculation of diluted EPS as they were considered anti-dilutive, of which 3.9 million relate to unexercised stock options, and 3.5 million relate to the issuance of warrants. For each of the three and six months ended September 30, 2013, 9.7 million shares were not included in the calculation of diluted EPS as they were considered anti-dilutive, of which 3.2 million relate to unvested stock options, 3.2 million relate to the issue of warrants and 3.3 million shares related to the convertible feature of the Company's unsecured, senior convertible note (the "Exchanged Note").

The following table reconciles the numerators and denominators of the earnings per share calculation for the three and six months ended September 30, 2014 and 2013 (in thousands, except per share data):

| | Three months ended September 30, | | Six months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Numerator: | | | | |
| Net loss | $(25,423) | $(14,623) | $(38,939) | $(25,135) |
| Denominator: | | | | |
| Weighted-average shares of common stock outstanding | 83,048 | 62,787 | 80,876 | 61,583 |
| Weighted-average shares subject to repurchase | (1,577) | (1,671) | (1,286) | (1,871) |
| Shares used in per-share calculation basic | 81,471 | 61,116 | 79,590 | 59,712 |
| Shares used in per-share calculation diluted | 81,471 | 61,116 | 79,590 | 59,712 |
| Net loss per share basic | $(0.31) | $(0.24) | $(0.49) | $(0.42) |
| Net loss per share diluted | $(0.31) | $(0.24) | $(0.49) | $(0.42) |

4. Fair Value Measurements

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

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

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

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

its own data.

The Company provides a gross presentation of activity within Level 3 measurement roll-forward and details of transfers in and out of Level 1 and 2 measurements. A change in the hierarchy of an investment from its current level is reflected in the period during which the pricing methodology of such investment changes. Disclosure of the transfer of securities from Level 1 to Level 2 or Level 3 is made in the event that the related security is significant to total cash and investments. The Company did not have any transfers of assets and liabilities between Level 1 and Level 3 of the fair value measurement hierarchy during the three or six months ended September 30, 2014.

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

The following table provides the assets and liabilities carried at fair value, measured as of September 30, 2014 and March 31, 2014 (in thousands):

| | Total Carrying Value | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| September 30, 2014: | | | | |
| Assets: | | | | |
| Cash equivalents | $ 20,185 | $ 20,185 | $ - | $ - |
| Derivative liabilities: | | | | |
| Warrants | $ 1,841 | $ - | $ - | $ 1,841 |

| | Total Carrying Value | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| March 31, 2014: | | | | |
| Assets: | | | | |
| Cash equivalents | $ 17,675 | $ 17,675 | $ - | $ - |
| Derivative liabilities: | | | | |
| Warrants | $ 2,601 | $ - | $ - | $ 2,601 |

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

| | Warrants |
|---|---|
| April 1, 2014 | $ 2,601 |
| Mark to market adjustment | (760) |
| Balance at September 30, 2014 | $ 1,841 |

| | Derivative Liability | Warrants |
|---|---|---|
| April 1, 2013 | $ 529 | $ 3,633 |
| Warrant issuance with Senior Secured Term Loan | - | 315 |
| Mark to market adjustment | (525) | (1,347) |
| Extinguishment of derivative liability | (4) | - |
| Balance at March 31, 2014 | $ - | $ 2,601 |

The following table provides the assets and liabilities measured at fair value on a non-recurring basis, as of September 30, 2014 and March 31, 2014 (in thousands). During the three months ended September 30, 2014 the following asset

was determined to be no longer recoverable and was fully impaired. See note 14, “Minority Investments” for further details:

| | Total Carrying Value | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| September 30, 2014: | | | | |
| Assets: | | | | |
| Investment in unconsolidated entity – Blade Dynamics | $ - | $ - | $ - | $ - |
| March 31, 2014: | | | | |
| Assets: | | | | |
| Investment in unconsolidated entity – Blade Dynamics | $ 3,690 | $ - | $ - | $ 3,690 |

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

In April 2012, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with Capital Ventures International ("CVI"), an affiliate of Heights Capital Management, under which the Company issued a $25.0 million, 7% convertible note (the "Initial Note"). In December 2012, the Company entered into an agreement with CVI pursuant to which it exchanged the Initial Note for the Exchanged Note. The Exchanged Note was extinguished as of March 31, 2014. The Company had identified all of the derivatives ("Derivative Liability") associated with the extinguished Exchanged Note which include holder change of control redemption rights, issuer optional redemption rights, sale redemption rights and a feature to convert the Exchanged Note into equity at the holder's option. The Derivative Liability was subject to revaluation at each balance sheet date, and any change in fair value was recorded as a change in fair value in derivatives and warrants until its expiration. The Company relied on assumptions in a lattice model to determine the fair value of Derivative Liability. The Company had valued the Derivative Liability within Level 3 of the valuation hierarchy. (See Note 10, "Debt," for further discussion of the Exchanged Note, Derivative Liability and valuation assumptions used.)

Warrants

Warrants were issued in conjunction with the Purchase Agreement with CVI, and the Term Loans. (See Note 10, "Debt," and Note 11 "Warrants and Derivative Liabilities," for additional information.) These warrants are subject to revaluation at each balance sheet date, and any change in fair value will be recorded as a change in fair value in derivatives and warrants until the earlier of their exercise or expiration.

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

Minority Investment

The Company accounts for the minority investment in Blade Dynamics on a cost basis (See Note 14, "Minority Investments"). During the year ended March 31, 2014, the Company determined that as a result of its efforts to sell its investment in Blade Dynamics, certain indicators of impairment existed which required the Company to perform further analysis. Based on analysis which included potential sale scenarios of the investment, the Company recorded an impairment charge of approximately $1.3 million and reported the investment at its estimated fair value in the fourth quarter ended March 31, 2014.

During the three months ended September 30, 2014, the Company determined that as a result of a dilutive financing which resulted in the Company losing certain of its shareholder rights, as well as certain operational issues and adverse changes to the potential sale scenarios previously considered, its investment in Blade Dynamics was no longer recoverable and therefore recorded an impairment charge of $3.5 million.

5. Accounts Receivable

Accounts receivable at September 30, 2014 and March 31, 2014 consisted of the following (in thousands):

| | September 30, 2014 | March 31, 2014 |
|---|---|---|
| Accounts receivable (billed) | $ 8,410 | $ 6,113 |
| Accounts receivable (unbilled) | 1,279 | 1,459 |
| Less: Allowance for doubtful accounts | (16) | (16) |
| Accounts receivable, net | $ 9,673 | $ 7,556 |

6. Inventory

Inventory at September 30, 2014 and March 31, 2014 consisted of the following (in thousands):

| | September 30, 2014 | March 31, 2014 |
|---|---|---|
| Raw materials | $ 6,936 | $ 3,304 |
| Work-in-process | 6,073 | 4,047 |
| Finished goods | 8,750 | 10,275 |
| Deferred program costs | 2,701 | 3,068 |
| Net inventory | $ 24,460 | $ 20,694 |

The Company recorded inventory write-downs of $0.6 million and less than $0.1 million for the three months ended September 30, 2014 and 2013, respectively. The Company recorded inventory write-downs of $1.3 million and $0.2 million for the six months ended September 30, 2014 and 2013, respectively. These write downs were based on evaluating its inventory on hand for excess quantities and obsolescence.

Deferred program costs as of September 30, 2014 and March 31, 2014 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.

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at September 30, 2014 and March 31, 2014 consisted of the following (in thousands):

| | September 30, 2014 | March 31, 2014 |
|---|---|---|
| Accounts payable | $ 7,063 | $ 1,749 |
| Accrued inventories in-transit | 1,330 | 212 |
| Accrued miscellaneous expenses | 4,424 | 6,076 |
| Accrued outside services | 3,026 | 3,716 |
| Accrued subcontractor program costs | 60 | 290 |
| Accrued compensation | 4,070 | 5,939 |
| Income taxes payable | 197 | 173 |
| Accrued adverse purchase commitments | - | 402 |
| Accrued warranty | 3,367 | 3,207 |
| Total | $ 23,537 | $ 21,764 |

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 September 30, | | Six months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance at beginning of period | $2,855 | $2,787 | $3,207 | $2,709 |
| Change in accruals for warranties during the period | 974 | 342 | 903 | 493 |
| Settlements during the period | (462) | (60) | (743) | (133) |
| Balance at end of period | $3,367 | $3,069 | $3,367 | $3,069 |

8. Income Taxes

For the three and six months ended September 30, 2014, the Company recorded income tax expense of $0.1 million and $0.2 million, respectively. For the three and six months ended September 30, 2013, the Company recorded income tax expense of $0.3 million and $0.4 million, respectively. Income tax expense was primarily due to income taxes in the Company’s foreign jurisdictions.

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, 2014 and March 31, 2013, 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. During the year ended March 31, 2014, the Company undertook a plan to consolidate its Grid manufacturing activities in its Devens, Massachusetts facility and close its facility in Middleton, Wisconsin. In addition, the Company is establishing a new Wind manufacturing facility in Romania and as a result reduced the headcount in its operation in China to a level necessary to support demand from its Chinese customers. The Company also undertook a 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 $0.3 million and $1.4 million during the three and six months ended September 30, 2014, respectively. During the six months ended September 30, 2013, the Company incurred restructuring costs of approximately $0.8 million. From April 1, 2011 through September 30, 2014, the Company's various restructuring activities resulted in a substantial reduction of its global workforce. Remaining unpaid amounts under these restructuring activities are expected to be paid by August 31, 2015.

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

| Six months ended September 30, 2014: | Severance pay and benefits | Facility Exit and Relocation costs | Total |
|---|---|---|---|
| Accrued restructuring balance at April 1, 2014 | $ 844 | $ - | $844 |
| Charges to operations | 632 | 814 | 1,445 |
| Cash payments | (696) | (814) | (1,509) |
| Accrued restructuring balance at September 30, 2014 | $ 780 | $ - | $780 |
| | | | |
| Six months ended September 30, 2013: | | | |
| Accrued restructuring at April 1, 2013 | $ 145 | $ 54 | $199 |
| Charges to operations | 751 | 13 | 764 |
| Cash payments | (599) | (37) | (636) |
| Non-cash/miscellaneous reductions | (166) | (30) | (196) |
| Accrued restructuring balance at September 30, 2013 | $ 131 | $ - | $131 |

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 the Purchase Agreement with CVI and completed a private placement of the Initial 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 elect to defer receipt of monthly installment payments at its option. Any deferred installment payments would continue to accrue interest. The Company registered 10,262,311 shares of common stock which could be used as payment for principal and interest in lieu of cash for resale under the Securities Act of 1933, as amended (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 Topic 815 – Derivatives and Hedging (ASC 815). The Company elected not to use the fair value option for the aggregate amount of the Initial 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 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.)

On December 20, 2012, the Company entered into an Amendment and Exchange Agreement, (the “Amendment”) with CVI, which amended the Purchase Agreement. Pursuant to the Amendment, the Company and CVI exchanged the Initial Note for 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 was convertible into the Company’s common stock and had the same scheduled monthly installment payments as the Initial Note. The Exchanged Note provided the Company with additional flexibility to make monthly installment payments in shares of the Company’s common stock. The Company retained the ability to repay the Exchanged Note in cash.

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, as 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 was amortized into interest expense over the term of the Exchanged Note using the effective interest method. Under this method, interest expense was recognized each period until the debt instruments reached maturity. Given that the maturity of the Exchanged Note was accelerated due to prepayment, the amortization was 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 Purchase Agreement, as amended by the Amendment (collectively, the “Amended Purchase Agreement”), that the Company previously entered into with CVI.

Pursuant to the Second Amendment, the Company and/or CVI waived certain provisions of the Amended Purchase Agreement and amended certain provisions of the Exchanged Note and 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 six months ended September 30, 2013, the Company recorded non-cash interest expense for amortization of the debt discount related to the convertible notes of $1.2 million and $2.7 million, respectively.

Provided certain equity conditions were met, the Company could elect to repay principal and interest in shares of the Company’s common stock. If the Company elected to make a payment in shares of the Company’s common stock, the number of shares issued was 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 recorded the difference between the closing price of its common stock on the day preceding the payment date and the Market Price as a discount on the fair value of its shares. During both the three and six months ended September 30, 2013, the Company recorded $1.8 million of non-cash interest expense related to installment payments made by issuing the Company's common stock at a discount.

On March 2, 2014, the Company entered into an Exchange Agreement with CVI, pursuant to which the Company exchanged the Exchanged Note for approximately 6.6 million shares of common stock and extinguished the debt. As a result of this transaction, the Company recorded a loss on the extinguishment of debt of $5.2 million during the three months ended March 31, 2014.

Senior Secured Term Loans

On June 5, 2012, the Company entered into the Term Loan with 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 six months ended September 30, 2014, the Company recorded non-cash interest expense for amortization of the debt discount related to the Term Loan of less than $0.1 million and $0.1 million, respectively. During the three and six months ended September 30, 2013, the Company recorded non-cash interest expense for amortization of the debt discount related to the Term Loan of $0.1 million and $0.3 million, respectively.

On November 15, 2013, the Company amended the Term Loan with Hercules and entered into the New Term Loan, 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 made interest-only payments from December 1, 2013 to May 31, 2014. If the Company achieved certain revenue targets for the six-month period ending March 31, 2014, interest only payments would continue through August 31, 2014. The Company did not meet these revenue targets. As a result, the Company is repaying 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 and six months ended September 30, 2014, the Company recorded non-cash interest expense for amortization of the debt discount related to the New Term Loan of $0.1 million and $0.2 million, respectively.

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 (the "Minimum Threshold") in the United States of at least $15.0 million at the inception of the New Term Loan. The Minimum Threshold 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. As of September 30, 2014, the Minimum Threshold was $9.8 million. The events of default under the Term Loans include, but are not limited to, failure to pay amounts due, breaches of covenants, bankruptcy events, cross defaults under other material indebtedness and the occurrence of a material adverse effect and/or change in control. In the case of a continuing event of default, Hercules may, among other remedies, declare due all unpaid principal amounts outstanding and any accrued but unpaid interest and foreclose on all collateral granted to Hercules as security under the Term Loans.

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

Interest expense on the Term Loans for the three and six months ended September 30, 2014, was $0.5 million and $1.0 million, respectively, which included $0.2 million and $0.3 million, respectively, of non-cash interest expense related to the amortization of the debt discount on the Term Loans. Interest expense on the Exchanged Note and Term Loans for the three and six months ended September 30, 2013, was $3.5 million and $5.6 million, respectively, which included $3.1 million and $4.8 million, respectively, of non-cash interest expense related to the amortization of the debt discount on the Exchanged Note and Term Loans and payment of the Exchanged Note in Company common stock at a discount.

11. Warrants and Derivative Liabilities

Senior Convertible Note Warrant

On April 4, 2012, the Company entered into the Purchase Agreement with CVI. The Purchase Agreement included the Original 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 amended the Purchase Agreement with CVI (the "Amendment"). Pursuant to the 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. As a result of the sales of common stock under the ATM (See Note 12, "Stockholders' Equity", for further discussion of the ATM), and other issuances, during the three months ended September 30, 2014, the exercise price of the Exchanged Warrant was reduced to $2.55 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 4, "Fair Value Measurements", and 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 of derivatives and warrants until the earlier of expiration or its exercise at which time the warrant liability will be reclassified to equity.

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

| Fiscal Year 14 | September 30, 2014 | | June 30, 2014 | |
|---|---|---|---|---|
| Risk-free interest rate | 1.07 | % | 0.98 | % |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Expected annual dividend yield | — | % | — | % | | | | | | | | | | |
| Expected volatility | 76.20 | % | 83.50 | % | | | | | | | | | | |
| Term (years) | 3.01 | | 3.26 | | | | | | | | | | | |
| Fair value | $1.5 million | | $2.3 million | | | | | | | | | | | |
| | | | | | Post-modification | | Pre-modification | | | | | | | |
| Fiscal Year 13 | March 31, 2014 | | December 31, 2013 | | October 9, 2013 | | October 9, 2013 | | September 30, 2013 | | June 30, 2013 | | March 31, 2013 | |
| Risk-free interest rate | 1.11 | % | 1.17 | % | 1.05 | % | 1.05 | % | 1.02 | % | 1.13 | % | 0.67 | % |
| Expected annual dividend yield | — | % | — | % | — | % | — | % | — | % | — | % | — | % |
| Expected volatility | 80.99 | % | 75.60 | % | 71.45 | % | 71.45 | % | 71.98 | % | 71.90 | % | 71.74 | % |
| Term (years) | 3.51 | | 3.76 | | 3.99 | | 3.99 | | 4.01 | | 4.27 | | 4.51 | |
| Fair value | $ 2.2 million | | $ 2.2 million | | $ 3.2 million | | $ 2.2 million | | $ 2.5 million | | $ 3.0 million | | $ 3.4 million | |

The Company recorded net gains, resulting from the decrease in the fair value of the Exchanged Warrant, of $0.8 million and $0.5 million to change in fair value of derivatives and warrants in the three months ended September 30, 2014, and 2013, respectively. The Company recorded net gains, resulting from the decrease in the fair value of the Exchanged Warrant, of $0.7 million and $0.9 million to change in fair value of derivatives and warrants in the six months ended September 30, 2014, and 2013, respectively.

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 Amendment with CVI provided for, among other things, the exchange of the Initial Note for the Exchanged Note and 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 of the sales of common stock under the ATM (See Note 12, “Stockholders’ Equity”, for further discussion of the ATM) the conversion price of the Exchanged Note was further reduced to $3.10 per share.

On March 2, 2014, the Company entered into an Exchange Agreement with CVI, pursuant to which the Company exchanged the Exchanged Note for approximately 6.6 million shares of common stock, in full satisfaction of all amounts owed under the Exchanged Note, including any accrued interest. In addition, the Company extinguished the remaining value for the derivative liability identified with the Exchanged Note and any unamortized debt discount.

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

| Fiscal Year 13 | March 31, 2014 | December 31, 2013 | September 30, 2013 | June 30, 2013 | March 31, 2013 |
|---|---|---|---|---|---|
| Principal outstanding (000's) | $ — | $ 10,411 | $ 10,411 | $ 14,389 | $ 15,380 |
| Stock price | N/A | $ 1.64 | $ 2.34 | $ 2.64 | $ 2.67 |
| Percentage volume condition met | — % | 87.20 % | 80.20 % | 87.50 % | 80.50 % |
| Expected volatility | — % | 68.63 % | 66.26 % | 65.80 % | 66.91 % |
| Risk free rate | — % | 0.12 % | 0.10 % | 0.21 % | 0.20 % |
| Bond yield | — % | 16.50 % | 15.50 % | 16.70 % | 16.50 % |
| Recovery rate | — % | 35.00 % | 35.00 % | 37.00 % | 30.00 % |
| Redeemable | N/A | yes | yes | yes | yes |
| Total time (years) | — | 0.75 | 1.00 | 1.26 | 1.51 |
| Dilution effect | N/A | yes | yes | yes | yes |
| Fair value | $ — | $ — | $ 0.2 million | $ 0.5 million | $ 0.5 million |
| Fair value as a percent of par | — % | 0.02 % | 0.70 % | 3.3 % | 3.4 % |

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 net gains, resulting from the decrease in the fair value of the derivative, of $0.3 million to change in fair value of derivatives and warrants in each of the three and six months ended September 30, 2013.

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. An anti-dilution adjustment resulted in a reduction to the exercise price to $1.94 per share as of September 30, 2014.

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 14 | September 30, 2014 | June 30, 2014 |
|---|---|---|
| Risk-free interest rate | 1.13 % | 1.04 % |
| Expected annual dividend yield | — % | — % |
| Expected volatility | 78.30 % | 82.75 % |
| Term (years) | 3.18 | 3.43 |
| Fair value | $ 0.1 million | $ 0.1 million |

| Fiscal Year 13 | March 31, 2014 | December 31, 2013 | Post-modification November 15, 2013 | Pre-modification November 15, 2013 | September 30, 2013 | June 30, 2013 | March 31, 2013 |
|---|---|---|---|---|---|---|---|
| Risk-free interest rate | 1.18 % | 1.24 % | 1.00 % | 1.00 % | 1.09 % | 1.20 % | 0.70 % |
| Expected annual dividend yield | — % | — % | — % | — % | — % | — % | — % |
| Expected volatility | 80.73 % | 74.79 % | 72.64 % | 72.64 % | 72.10 % | 72.30 % | 72.01 % |
| Term (years) | 3.68 | 3.93 | 4.05 | 4.05 | 4.18 | 4.43 | 4.68 |
| Fair value | $ 0.1 million | $ 0.1 million | $ 0.1 million | $ 0.1 million | $ 0.2 million | $ 0.2 million | $ 0.2 million |

The Company recorded no change in fair value of derivatives and warrants during either of the three or six month periods ended September 30, 2014 and 2013 due to nominal fair value fluctuation.

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. An anti-dilution adjustment resulted in a reduction to the exercise price to $1.94 per share as of September 30, 2014.

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 14 | September 30, 2014 | June 30, 2014 |
|---|---|---|
| Risk-free interest rate | 1.65 % | 1.57 % |
| Expected annual dividend yield | — % | — % |
| Expected volatility | 78.10 % | 80.00 % |
| Term (years) | 4.62 | 4.87 |
| Fair value | $ 0.2 million | $ 0.3 million |

| Fiscal Year 13 | March 31, 2014 | December 31, 2013 | New Issuance November 15, 2013 |
|---|---|---|---|
| Risk-free interest rate | 1.76 % | 1.89 % | 1.55 % |
| Expected annual dividend yield | — % | — % | — % |
| Expected volatility | 79.73 % | 80.37 % | 76.97 % |
| Term (years) | 5.12 | 5.37 | 5.49 |
| Fair value | $ 0.3 million | $ 0.3 million | $ 0.3 million |

The Company recorded a decrease in the fair value of the Second Warrant resulting in a gain of $0.1 million in each of the three and six months ended September 30, 2014.

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. 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 Select 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 September 30, 2014, the Company received net proceeds of $3.7 million, including sales commissions and offering expenses, from sales of approximately 2.1 million shares of its common stock at an average sales price of approximately $1.75 per share under the ATM. As of September 30, 2014, the Company has approximately $17.1 million of remaining availability 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 September 30, 2014, the Company had paid the remaining adverse purchase commitment liability.

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.

Ghodawat, a company registered in India carrying on the business of wind power development, lodged a Request for Arbitration with the ICC Court on May 12, 2011 and named AMSC Windtec GmbH ("AMSC Austria") as the Respondent. Under the Request for Arbitration, Ghodawat alleged 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 amounted to approximately €18 million ($24 million). AMSC Austria submitted counterclaims under the License Agreement against Ghodawat in the amount of approximately €6 million ($8 million). On August 29, 2014, the ICC Court ruled that AMSC Austria was liable for damages and awarded Ghodawat approximately €8.3 million (approximately $10.6 million), which includes reimbursement of legal costs and associated expenses. Interest on this amount will accrue at a rate of 5.33% from the date of award. The Company had recorded a loss contingency of $0.5 million based on its assessment of probable losses on this claim in a prior period. As a result of the arbitration award liability, the Company recorded a charge of $10.2 million during the three months ended September 30, 2014.

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 (the "Court"); one complaint additionally asserted claims against the underwriters who participated in its November 12, 2010 securities offering. On June 7, 2011, 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 its November 12, 2010 securities offering, asserting claims under sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (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. On November 19, 2013, the Company entered into a Stipulation and Agreement of Settlement (the "Stipulation"), which resolved the claims asserted against the Company, certain of its current and former officers and directors, and the underwriters. The terms of the Stipulation provided, among other things, a settlement payment by the Company of $10.0 million, $8.2 million of which was to be funded by the Company's insurers and $1.8 million of which was 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) decreased as of the effective date of the settlement, the Company was required to make a cash payment for the difference in value. The effective date of the Stipulation was June 5, 2014 (the "Effective Date"). Pursuant to the terms of the Stipulation, (i) on June 11, 2014, the Company made a cash payment of approximately $0.5 million for the decrease in value of the Settlement Shares (as calculated under the Stipulation) as of the Effective Date, and (ii) on June 18, 2014, the Company issued the Settlement Shares. The issuance of the Settlement Shares was exempt from registration pursuant to Section 3(a)(10) of the Securities Act. The aforementioned payments by the Company represented the final amounts to be paid to the plaintiffs under the Stipulation.

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 Court. On July 5, 2011, the Court consolidated three of these actions under the caption 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 was 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 was captioned Krasnoff v. Budhraja, et al., Docket No. 7171. 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 Stipulation provided 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 for fees and expenses, which was fully funded by the Company's insurers; and (c) certain additions to the Company's corporate governance policies. The terms of the Derivative Stipulation were subject to approval by the Court following notice to stockholders. By order entered May 8, 2014, the Court approved the terms of the Derivative Stipulation and issued a final judgment dismissing In re American Superconductor Corporation Derivative Litigation. Pursuant to the terms of the Derivative Stipulation, the Company and the plaintiffs subsequently jointly sought and obtained dismissal of In re American Superconductor Corporation Shareholder Derivative Litigation, and Krasnoff v. Budhraja, et al. The effective date of the settlement was June 10, 2014.

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 its existing contracts as well as reimbursement of all costs and reasonable expenses with respect to the arbitration. The value of the undelivered components under the existing contracts, including the deliveries refused by Sinovel in March 2011, amounts to approximately RMB 4.6 billion ($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 its 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. On January 26, 2014, the Supreme People's Court ruled to uphold the Beijing Higher People's Court ruling that the dispute shall be heard by the court. On September 15, 2014, the Beijing No. 1 Intermediate People's Court held its first substantive hearing in the Beijing case. At the hearing, the parties presented evidence, reviewed claims, and answered questions from the court. The Company is awaiting a decision from the Beijing No. 1 Intermediate People's Court.

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. 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 February 24, 2014, the Beijing No. 1 Intermediate People's Court denied Sinovel's motion to remove and transfer the case. On March 13, 2014, Sinovel filed an appeal of the Beijing No. 1 Intermediate People's Court decision to the Beijing Higher People's Court. On August 7, 2014, the Beijing Higher People's Court upheld the Beijing No.1 Intermediate Court's decision and rejected Sinovel's appeal regarding the jurisdiction opposition. The Company is currently awaiting notice from the Beijing No. 1 Intermediate People's Court regarding the first hearing date.

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. On January 26, 2014, the Supreme People's Court revoked Hainan No. 1 Intermediate People's Court and Hainan Higher People's Court rulings and ruled that the case shall be heard by the Hainan No. 1 Intermediate People's Court. The Hainan No. 1 Intermediate People's Court accepted the case under the caption (2014) Hainan Yi Zhong Min San Chu Zi No. 1. On October 21, 2014, the Hainan No. 1 Intermediate People's Court changed the caption of this case to (2014) Hainan Yi Zhong Zhi Min Chu Zi No. 2, and scheduled the first hearing date to be held on November 18, 2014.

Other

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

As of September 30, 2014 the Company had $3.4 million of restricted cash included in current assets, and $0.1 million of restricted cash included in long-term assets. These amounts included in restricted cash represent deposits to secure letters of credit for various supply contracts. These deposits are held in interest bearing accounts.

The Company had an unused, unsecured line of credit consisting of €2.7 million (approximately $3.4 million) in Austria as of September 30, 2014.

14. Minority Investments

Investment in Tres Amigas LLC

The Company made an investment in Tres Amigas, focused on providing the first common interconnection of America's three power grids to help the country achieve its renewable energy goals and facilitate the smooth, reliable and efficient transfer of green power from region to region. The Company's original investment in Tres Amigas was $5.4 million. As of September 30, 2014, 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 September 30, 2014. 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 six months ended September 30, 2014 is as follows (in thousands):

| | |
|---|---|
| Balance at April 1, 2014 | $1,845 |
| Minority interest in net losses | (410 ) |
| Balance at September 30, 2014 | $1,435 |

Investment in Blade Dynamics Ltd.

The Company has acquired (through its Austrian subsidiary), a minority ownership position in Blade Dynamics, a designer and manufacturer of advanced wind turbine blades based on proprietary materials and structural technologies. The Company's original investment was for $8.0 million in cash. As of September 30, 2014, 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.

During the year ended March 31, 2014, the Company determined that as a result of its efforts to sell its investment in Blade Dynamics, certain indicators of impairment existed which required the Company to perform further analysis. As a result of this analysis, the Company recorded an impairment charge for approximately $1.3 million.

During the three months ended September 30, 2014, the Company determined that as a result of dilutive financing which resulted in the Company losing certain of its shareholder rights, as well as certain operational issues and adverse changes to the potential sale scenarios previously considered, its investment in Blade Dynamics was no longer recoverable and therefore recorded an impairment charge of $3.5 million.

The net investment activity for the six months ended September 30, 2014 is as follows (in thousands):

| | |
|---|---|
| Balance at April 1, 2014 | $3,690 |
| Net foreign exchange rate impact | (226) |
| Impairment | (3,464) |
| Balance at September 30, 2014 | $- |

15. Business Segments

The Company reports 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 of 2 MWs and higher. 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 September 30, | | Six months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | |
| Wind | $7,462 | $14,691 | $15,113 | $29,392 |
| Grid | 4,993 | 9,490 | 9,038 | 17,875 |
| Total | $12,455 | $24,181 | $24,151 | $47,267 |

| | Three months ended September 30, | | Six months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Operating loss: | | | | |
| Wind | $(14,611) | $(2,449) | $(18,091) | $(4,274) |
| Grid | (6,559) | (5,750) | (12,966) | (10,618) |
| Unallocated corporate expenses | (5,230) | (2,829) | (8,010) | (4,985) |
| Total | $(26,400) | $(11,028) | $(39,067) | $(19,877) |

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

Unallocated corporate expenses primarily consist of stock-based compensation expense of $1.5 million and $3.1 million, and restructuring and impairment charges of $3.7 million and $4.9 million, for the three and six months ended September 30, 2014, respectively. Unallocated corporate expenses primarily consist of stock-based compensation expense of $2.2 million and $4.3 million, respectively, for the three and six months ended September 30, 2013, as well as restructuring and impairment charges of $0.8 million for each of the three and six months ended September 30, 2013, respectively.

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

| | September 30, 2014 | March 31, 2014 |
|---|---|---|
| Wind | $47,569 | $36,701 |
| Grid | 44,779 | 54,342 |
| Corporate assets | 63,499 | 77,466 |
| Total | $155,847 | $168,509 |

The following table sets forth customers who represented 10% or more of the Company's total revenues for the three and six months ended September 30, 2014 and 2013:

| | Three months ended September 30, | | Six months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| INOX Wind Limited | 48 % | 27 % | 48 % | 21 % |

| | | | | | | |
|---|---|---|---|---|---|---|
| RES American Construction, Inc | 16 % | — % | <10% | — % | | |
| Beijing JINGCHENG New Energy Co., Ltd | — % | 28 % | <10% | 31 % | | |

16. Recent Accounting Pronouncements

In May 2014, the FASB and the International Accounting Standards Board (IASB) issued ASU 2014-09, ASU Revenue from Contracts with Customers (Topic 606), The guidance substantially converges final standards on revenue recognition between the FASB and IASB providing a framework on addressing revenue recognition issues and, upon its effective date, replaces almost all exiting revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles. The ASU is effective for annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact of adopting ASU 2014-09 to determine the impact, if any, it may have on its current practices.

In July 2014, the FASB issued ASU 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share Based Payments When the Terms of an Award Provide that a Performance Target could be Achieved after the Requisite Service Period. To account for such awards, a reporting entity should apply existing guidance in FASB Accounting Standards Codification Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. This ASU is effective for annual reporting periods and interim periods, within those annual periods beginning after December 15, 2015. The Company is currently evaluating the impact of adopting ASU 2014-12 to determine the impact, if any, it may have on its current practices.

In August 2014, the FASB issued ASU 2014-13, Consolidation (Topic 810): Measuring the Financial Assets and Financial Liabilities of a Consolidated Collateralized Financing Entity. The new standard applies to reporting entities that are required to consolidate a collaterized financing entity under the variable interest entities subtopic 810-10. This ASU is effective for annual reporting periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. The Company is currently evaluating the impact of adopting ASU 2014-13 to determine the impact, but currently does not believe there will be an impact on its consolidated results of operations, financial condition, or cash flow.

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

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 a history of operating losses, which may continue in the future. Our operating results may fluctuate significantly from quarter to quarter and may fall below expectations in any particular fiscal quarter; We have a history of negative operating cash flows, and we may require additional financing in the future, which may not be available to us; Our Term Loans include certain covenants and other events of default. Should we not comply with these covenants or incur an event of default, we may be required to repay our obligation in cash, which could have an adverse effect on our liquidity; We may be required to issue performance bonds or provide letters of credit, which restricts our ability to access any cash used as collateral for the bonds or letters of credit; Changes in exchange rates could adversely affect our results from operations; If we fail to maintain proper and effective internal controls over financial reporting, our ability to produce accurate and timely financial statements could be impaired and may lead investors and other users to lose confidence in our financial data; Our success in addressing the wind energy market is dependent on the manufacturers that license our designs; Our success is dependent upon attracting and retaining qualified personnel and our inability to do so could significantly damage our business and prospects; We may not realize all of the sales expected from our backlog of orders and contracts; Our financial condition may have an adverse effect on our customer and supplier relationships; Failure to successfully execute the consolidation of our Grid manufacturing operations or achieve expected savings could adversely impact our financial performance; Our business and operations would be adversely impacted in the event of a failure or security breach of our information technology infrastructure; We may not be able to launch operations at our newly leased manufacturing facility in Romania, and, if we are able to do so, we may have manufacturing quality issues, which would negatively affect our revenues and financial position; We rely upon third-party suppliers for the components and subassemblies of many of our Wind and Grid products, making us vulnerable to supply shortages and price fluctuations, which could harm our business; Many of our revenue opportunities are dependent upon subcontractors and other business collaborators; If we fail to implement our business strategy successfully, our financial performance could be harmed; Problems with product quality or product performance may cause us to incur warranty expenses and may damage our market reputation and prevent us from achieving increased sales and market share; 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; 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 may acquire additional complementary businesses or technologies, which may require us to incur substantial costs for which we may never realize the anticipated benefits; Our success depends upon the commercial use of high temperature superconductor (HTS) products, which is currently limited, and a widespread commercial market for our products may not develop; Growth of the wind energy market depends largely on the availability and size of government subsidies and economic incentives; We have operations in and depend on sales in emerging markets, including 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; 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 in various legal proceedings, and we may be named in additional litigation, all of which will require significant management time and attention, result in significant legal expenses and may result in an unfavorable outcome, which could have a material adverse effect on our business, operating results and financial condition; 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, 2014, 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, security and quality. Concerns about these factors have led to increased spending by corporations as well as supportive government regulations and initiatives on local, state, national and global levels, including renewable portfolio standards, tax incentives and international treaties.

We manufacture products using two proprietary core technologies: PowerModule™ programmable power electronic converters and our Amperium® 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, security and affordability. We provide transmission planning services that allow us to identify power grid congestion, poor power quality and other risks, which help us determine how our solutions can improve network performance. 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 2014 refers to the fiscal year beginning on April 1, 2014. Other fiscal years follow similarly.

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 September 30, 2014, had an accumulated deficit of $895.3 million. In addition, we have experienced recurring negative operating cash flows. At September 30, 2014, we had cash and cash equivalents of $34.7 million. Cash used in operations for the six months ended September 30, 2014 was $11.4 million. On August 29, 2014, the Arbitration Tribunal for the ICC International Court of Arbitration (the "ICC Court") found us liable for damages in our breach of contract arbitration against Ghodawat Energy Pvt Ltd ("Ghodawat") and awarded Ghodawat approximately €8.3 million (approximately $10.6 million) plus interest of 5.33%, which accrues from the date of award. We are exploring our options with respect to this award, but intend to defend vigorously against the enforcement of this award. See Part II, Item 1, "Legal Proceedings" for further information. As of September 30, 2014, there was approximately $17.1 million of availability under our ATM arrangement. Sales of common stock under the ATM may be made from time to time, at our discretion, in order to enhance liquidity. In addition, we are actively seeking to sell our minority investment in Tres Amigas, LLC, a Delaware limited liability company ("Tres Amigas"). We no longer believe our investment in Blade Dynamics is recoverable and therefore fully impaired our remaining investment in Blade Dynamics Ltd. ("Blade Dynamics") during the three months ended September 30, 2014. There can be no assurance that we will be able to sell these investments on commercially reasonable terms or at all.

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

Our cash requirements depend on numerous factors, including the timing and amount of the arbitration award liability ultimately paid, successful completion of our product development activities, our ability to commercialize our Resilient Electric Grid ("REG") and degaussing system solutions, rate of customer and market adoption of our products, collecting receivables according to established terms, and the continued availability of U.S. government funding during the product development phase 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.

On March 31, 2011, Sinovel Wind Group Co., Ltd. ("Sinovel") refused to accept contracted scheduled shipments with a revenue value of approximately $65.2 million. In addition, as of March 31, 2011, we had approximately $62.0 million of receivables (excluding value-added tax) outstanding from Sinovel. As of the date of this filing, we have not received payment from Sinovel for these outstanding receivables that are now past due, nor have we been notified as to when, if ever, they will accept contracted shipments that were scheduled for delivery after March 31, 2011. No payment has been received from Sinovel since early March 2011. Because Sinovel did not give us notice that it intended to delay deliveries as required under the contracts, we believe that these actions constitute material breaches of our contracts. Additionally, we believe that Sinovel illegally obtained and used our intellectual property in violation of civil and criminal intellectual property laws.

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

was filed with the Beijing Arbitration Commission in accordance with the terms of our supply contracts with Sinovel. We also filed civil and criminal complaints against Sinovel.

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

Critical Accounting Policies and Estimates

The preparation of the unaudited condensed consolidated financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ under different assumptions or conditions. There were no significant changes in the critical accounting policies during the six months ended September 30, 2014 that were disclosed in our Form 10-K for fiscal 2013, which ended on March 31, 2014.

Results of Operations

Three and six months ended September 30, 2014 compared to the three and six months ended September 30, 2013

Revenues

Total revenues decreased by 48% and 49% to $12.5 million and $24.2 million for the three and six months ended September 30, 2014, respectively, compared to $24.2 million and $47.3 million for the three and six months ended September 30, 2013, respectively. Our revenues are summarized as follows (in thousands):

| | Three Months Ended September 30, | | Six months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | |
| Wind | $7,462 | $14,691 | $15,113 | $29,392 |
| Grid | 4,993 | 9,490 | 9,038 | 17,875 |
| Total | $12,455 | $24,181 | $24,151 | $47,267 |

Our Wind business unit accounted for 60% and 63% of total revenues for the three and six months ended September 30, 2014, respectively compared to 61% and 62% for the three and six months ended September 30, 2013, respectively. Revenues in the Wind business unit decreased 49% to $7.5 million and $15.1 million in the three and six months ended September 30, 2014, from $14.7 million and $29.4 million in the three and six months ended September 30, 2013, respectively. Wind business unit revenues during the three and six months ended September 30, 2014 decreased primarily due to lower revenues from customers in China.

Our Grid business unit accounted for 40% and 37% of total revenues for the three and six months ended September 30, 2014, respectively, compared to 39% and 38% for the three and six months ended September 30, 2013, respectively. Our Grid business unit revenues decreased 47% and 49% to $5.0 million and $9.0 million in the three and six months ended September 30, 2014, respectively, from $9.5 million and $17.9 million in the three and six months ended September 30, 2013, respectively. Grid business unit revenues decreased in the three and six months ended September 30, 2014 primarily due to lower D-VAR system revenues and lower Superconductors revenue due to lower revenues from customers in Korea.

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. 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 $0.4 million and $0.6 million of revenue on this project for the three and six month periods ended September 30, 2014, respectively, compared to $1.0 million and $1.1 million for the three and six months ended September 30, 2013, respectively.

The following table sets forth customers who represented 10% or more of our total revenues for the three and six months ended September 30, 2014 and 2013:

| | Three months ended September 30, | | Six months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| INOX Wind Limited | 48 % | 27 % | 48 % | 21 % |
| RES American Construction, Inc | 16 % | — % | <10% | — % |
| Beijing JINGCHENG New Energy Co., Ltd | — % | 28 % | <10% | 31 % |

Cost of Revenues and Gross Margin

Cost of revenues was $13.8 million and $25.9 million for the three and six months ended September 30, 2014, respectively, compared to $22.6 million and $40.6 million for the three and six months ended September 30, 2013, respectively. Gross margin was (10.6%) and (7.1%) for the three and six months ended September 30, 2014, respectively, compared to 6.5% and 14.1% for the three and six months ended September 30, 2013, respectively. The decrease in gross margin for the three and six months ended September 30, 2014 as compared to the same periods in fiscal 2013 was primarily due to lower fixed cost absorption due to lower revenues as well as 100% margin revenue in the prior year.

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 September 30, | | Six months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| R&D expenses per consolidated statements of operations | $3,078 | $3,083 | $6,198 | $6,110 |
| R&D expenditures reclassified as cost of revenues | 1,825 | 3,009 | 3,900 | 4,935 |
| R&D expenditures offset by cost-sharing funding | 9 | 117 | 36 | 199 |
| Aggregated R&D expenses | $4,912 | $6,209 | $10,134 | $11,244 |

R&D expenses (exclusive of amounts classified as cost of revenues and amounts offset by cost-sharing funding) were flat in the three months ended September 30, 2014, and increased by 1% to $6.2 million for the six months ended September 30, 2014, from $6.1 million for the six months ended September 30, 2013. The increase in R&D expenses in the six months ended September 30, 2014, was driven primarily by cost of living adjustments on salaries. The decreases in R&D expenditures reclassified to cost of revenue was a result of decreased activity under government funded contracts in our Grid business unit compared to the prior year period. Aggregated R&D expenses, which include amounts classified as cost of revenues, and amounts offset by cost-sharing funding decreased 21% and 10% to $4.9 million and $10.1 million for the three and six months ended September 30, 2014, respectively, from $6.2 million and $11.2 million for the three and six months ended September 30, 2013 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 cost of revenues rather than as R&D expenses, as discussed above.

Selling, general, and administrative

SG&A expenses decreased by 7% and 18% to $8.0 million and $16.0 million in the three and six months ended September 30, 2014, respectively, from $8.7 million and $19.5 million in the three and six months ended September 30, 2013, respectively. The decreases in SG&A expenses were due primarily to the realization of savings from cost

reduction actions that were implemented in prior periods as well as a reduction in audit and legal costs.

Arbitration award expense

We recorded an arbitration award expense of $10.2 million in the three months ended September 30, 2014 following a decision by the ICC Court on August 29, 2014, finding us liable for damages under a breach of contract proceeding against Ghodawat.

Amortization of acquisition related intangibles

We recorded amortization expense related to our core technology and know-how, trade names and trademark intangible assets of less than $0.1 million and $0.1 million in the three and six months ended September 30, 2014 and $0.1 million and $0.2 million in the three and six months ended September 30, 2013, respectively.

Restructuring and Impairments

We recorded $3.7 million and $4.9 million of restructuring and impairment charges in the three and six months ended September 30, 2014, respectively. We recorded restructuring and impairment charges of $0.8 million in both the three and six months ended September 30, 2013. The amount in the three months ended September 30, 2014 consists primarily of an impairment charge of $3.5 million on our minority investment in Blade Dynamics. The impairment charge followed an analysis in which we determined that this investment is not recoverable due to a dilutive financing which resulted in the loss of certain of our shareholder rights, as well as certain operational issues in the company. The amounts in the three months ended September 30, 2013 consist primarily of employee severance and benefit costs.

Operating loss

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

| | Three months ended September 30, | | Six months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Operating loss: | | | | |
| Wind | $(14,611) | $(2,449) | $(18,091) | $(4,274) |
| Grid | (6,559) | (5,750) | (12,966) | (10,618) |
| Unallocated corporate expenses | (5,230) | (2,829) | (8,010) | (4,985) |
| Total | $(26,400) | $(11,028) | $(39,067) | $(19,877) |

Our Wind segment generated operating losses of $14.6 million and $18.1 million in the three and six months ended September 30, 2014, respectively, compared to operating losses of $2.4 million and $4.3 million in the three and six months ended September 30, 2013, respectively. The increases in Wind business unit operating losses were primarily due to the aforementioned arbitration award expense as well as lower revenues as previously discussed.

The operating loss in our Grid segment increased to $6.6 million and $13.0 million in the three and six months ended September 30, 2014, respectively, compared to $5.8 million and $10.6 million in the three and six months ended September 30, 2013, respectively. The increases in the Grid business unit operating losses were primarily due to lower revenue, as previously discussed.

Unallocated corporate expenses primarily include stock-based compensation expense of $1.5 million and $3.1 million, and restructuring and impairment charges of $3.7 million and $4.9 million, for the three and six months ended September 30, 2014, respectively. Unallocated corporate expenses primarily consist of stock-based compensation expense of $2.2 million and $4.3 million, for the three and six months ended September 30, 2013, respectively, and restructuring and impairment charges of $0.8 million for each of the three and six months ended September 30, 2013, respectively.

Change in fair value of derivatives and warrants

The change in fair value of derivatives and warrants resulted in gains of $0.8 million in both the three and six months ended September 30, 2014, respectively, compared to gains of $0.9 million and $1.4 million for the three and six months ended September 30, 2013, respectively. The changes were primarily driven by a lower stock price, which is a key valuation metric and by the extinguishment of the derivative liability associated with our convertible note in the prior year.

Interest expense, net

Interest expense, net, was $0.5 million and $1.0 million in the three and six months ended September 30, 2014, respectively, compared to $3.5 million and $5.6 million in the three and six months ended September 30, 2013, respectively. The decreases in interest expense, net were due primarily to the extinguishment of the convertible note in March 2014.

Other income (expense), net

Other income, net, was $0.7 million and $0.6 million in the three and six months ended September 30, 2014, respectively, compared to other expense, net, of $0.6 million in both the three and six months ended September 30, 2013. The increases in other income, net are primarily related to foreign currency gains, particularly in the three months ended September 30, 2014.

Income Taxes

Income tax expense was $0.1 million and $0.2 million in the three and six months ended September 30, 2014, respectively, compared to $0.3 million and $0.4 million in the three and six months ended September 30, 2013, respectively. Income tax expense in both periods was primarily due to income taxes in foreign jurisdictions.

Non-GAAP Measures

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

We define non-GAAP net loss as net loss before stock-based compensation, arbitration award expense, 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, net of any tax effects related to these items, indicated in the table below. We believe non-GAAP net loss assists management and investors in comparing our performance across reporting periods on a consistent basis by excluding these non-cash or non-recurring charges that we do not believe are indicative of our core operating performance. 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 September 30, | | Six months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net loss | $(25,423) | $(14,623) | $(38,939) | $(25,135) |
| Stock-based compensation | 1,518 | 2,152 | 3,099 | 4,287 |
| Arbitration award expense | 10,188 | - | 10,188 | - |
| Amortization of acquisition-related intangibles | 39 | 82 | 79 | 164 |
| Restructuring and impairment charges | 3,731 | 751 | 4,909 | 764 |
| Sinovel litigation | - | (5) | - | (7) |
| Consumption of zero cost-basis inventory | (1,195) | (1,319) | (2,567) | (2,493) |
| Change in fair value of derivatives and warrants | (795) | (886) | (760) | (1,355) |
| Non-cash interest expense | 154 | 3,093 | 343 | 4,765 |
| Non-GAAP net loss | $(11,783) | $(10,755) | $(23,648) | $(19,010) |
| | | | | |
| Non-GAAP loss per share | $(0.14) | $(0.18) | $(0.30) | $(0.32) |
| Weighted average shares outstanding - basic and diluted | 81,471 | 61,116 | 79,590 | 59,712 |

We incurred non-GAAP net losses of $11.8 million and $23.6 million or $0.14 and $0.30 per share, for the three and six months ended September 30, 2014, respectively, compared to non-GAAP net losses of $10.8 million and $19.0 million, or $0.18 and $0.32 per share, for the three and six months ended September 30, 2013, respectively. The increases in non-GAAP net loss were driven primarily by the increased operating losses in our business units

excluding the arbitration award expense, which is part of the operating loss in our Wind segment for the three and six months ended September 30, 2014.

Liquidity and Capital Resources

At September 30, 2014, we had cash, cash equivalents, and restricted cash of $38.2 million, compared to $49.4 million at March 31, 2014, a decrease of $11.2 million. Our cash and cash equivalents, and restricted cash are summarized as follows (in thousands):

| | September 30, 2014 | March 31, 2014 |
|---|---|---|
| Cash and cash equivalents | $ 34,679 | $ 43,114 |
| Restricted cash | 3,525 | 6,307 |
| Total cash, cash equivalents, and restricted cash | $ 38,204 | $ 49,421 |

For the six months ended September 30, 2014, net cash used in operating activities was $11.4 million compared to $14.8 million for the six months ended September 30, 2013. The decrease in net cash used in operations was due primarily to cash generated from changes in operating asset and liability accounts, during the six months ended September 30, 2014.

For the six months ended September 30, 2014, net cash provided by investing activities was $2.3 million, compared to $3.4 million for the six months ended September 30, 2013. The decrease in net cash provided by investing activities for the six months ended September 30, 2014 was driven primarily by a net change in restricted cash.

For the six months ended September 30, 2014, net cash provided by financing activities was $0.8 million compared to net cash used in financing activities of $2.3 million in the six months ended September 30, 2013. The decrease in net cash used in financing activities was primarily due to net proceeds from the issuance of common stock under the ATM, during the six months ended September 30, 2014, partially offset by higher amounts repaid for debt. The ATM arrangement was not in place during the same period in the prior year.

At September 30, 2014, we had $3.4 million of restricted cash included in current assets, and $0.1 million of restricted cash included in long-term assets. These amounts included in restricted cash primarily represent deposits to secure letters of credit for various supply contracts. These deposits are held in interest bearing accounts.

We have experienced recurring operating losses and as of September 30, 2014, had an accumulated deficit of $895.3 million. In addition, we have experienced recurring negative operating cash flows. At September 30, 2014 we had cash and cash equivalents of $34.7 million. On August 29, 2014, the ICC Court found us liable for damages in our breach of contract proceeding against Ghodowat and awarded Ghodawat approximately €8.3 million (approximately $10.6 million) plus interest of 5.33%, which accrues from the date of the award. We are exploring our options with respect to this award, but intend to defend vigorously against the enforcement of this award. As of September 30, 2014, there was approximately $17.1 million of availability under our ATM arrangement. Sales of common stock under the ATM may be made from time to time at our discretion, in order to enhance liquidity. In addition, we are actively seeking to sell our minority investment in Tres Amigas. We no longer believe our remaining investment in Blade Dynamics is recoverable and have fully impaired our investment in Blade Dynamics during the three months ended September 30, 2014. There can be no assurance that we will be able to sell these investments on commercially reasonable terms or at all.

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 made interest-only payments from December 1, 2013 to May 31, 2014. If we achieved certain revenue targets for the six-month period ending March 31, 2014, interest only payments would continue through August 31, 2014. We did not meet these revenue targets. As a result, we are repaying 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 our 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 ("Minimum Threshold") in the United States of at least $15.0 million at the inception of the New Term Loan. The Minimum Threshold 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. As of September 30, 2014 the Minimum Threshold was $9.8 million. The events of default under the Term Loans include, but are not limited to, failure to pay amounts due, breaches of covenants, bankruptcy events, cross defaults under other material indebtedness and the occurrence of a material adverse effect and/or change in control. In the case of a continuing event of default, 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 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 the Term Loans.

On November 15, 2013, we entered into an ATM arrangement, pursuant to which, we may, at our discretion, sell up to $30.0 million of 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 or the termination of the ATM by us 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 September 30, 2014, we received net proceeds of $3.7 million, including sales commissions and offering expenses, from sales of approximately 2.1 million shares of our common stock at an average sales price of approximately $1.75 per share under the ATM. As of September 30, 2014, we have approximately $17.1 million of remaining availability under the ATM.

We expect to require additional capital, either from sales under the ATM or other sources to fund our operations, including the arbitrations award liability, capital expenditures and scheduled cash payments under our debt obligations through September 30, 2015. Our plans include, and our liquidity is highly dependent on, our ability to increase revenues and control our operating costs, our ability to utilize the ATM to raise additional capital or raise capital from other sources, and our ability to maintain compliance with the covenants and restrictions on our debt obligations (or obtain waivers from our lender in the event of non-compliance).

Our cash requirements depend on numerous factors, including the timing and amount of the arbitration award liability ultimately paid, successful completion of our product development activities, our ability to commercialize our REG and degaussing system solutions, rate of customer and market adoption of our products, collecting receivables according to established terms, and the continued availability of U.S. government funding during the product development phase 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.

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 our consolidated financial statements.

Off-Balance Sheet Arrangements

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

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

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

Recent Accounting Pronouncements

In May 2014, the FASB and the International Accounting Standards Board (IASB) issued, ASU Revenue from Contracts with Customers 2014-09 (Topic 606). The guidance substantially converges final standards on revenue recognition between the FASB and IASB providing a framework on addressing revenue recognition issues and, upon its effective date, replaces almost all exiting revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles. The ASU is effective for annual reporting periods beginning after December 15, 2016. We are currently evaluating the impact of adopting ASU 2014-09 to determine the impact, if any, it may have on our current practices.

In July 2014, the FASB issued ASU 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period. To account for such awards, a reporting entity should apply existing guidance in FASB Accounting Standards Codification Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. This ASU is effective for annual reporting periods and interim periods, within those annual periods beginning after December 15, 2015. We are currently evaluating the impact of adopting ASU 2014-12 to determine the impact, if any, it may have on our current practices.

In August 2014, the FASB issued ASU 2014-13, Consolidation (Topic 810): Measuring the Financial Assets and Financial Liabilities of a Consolidated Collateralized Financing Entity. The new standard applies to reporting entities that are required to consolidate a collateralized financing entity under the variable interest entities subsection of subtopic 810-10. This ASU is effective for annual reporting periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting ASU 2014-13 to determine the impact, but currently do not believe there will be an impact on our consolidated results of operations, financial condition, or cash flow.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Cash and cash equivalents

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

Foreign currency exchange risk

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

We face exposure to movements in foreign currency exchange rates whenever we, or any of our subsidiaries, enter into transactions with third parties that are denominated in currencies other than our functional currency. Intercompany transactions between entities that use different functional currencies also expose us to foreign currency risk. Gross margins of products we manufacture 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.

The impact of foreign currency on net loss for the three and six months ended September 30, 2014 were gains of $0.9 million and $1.0 million, respectively. The impact of foreign currency on net loss for the three and six months ended September 30, 2013 included a loss of $0.4 million and gain of $0.1 million, respectively.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2014. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation of our disclosure controls and procedures as of September 30, 2014, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2014 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

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 (the "ICC Court") on May 12, 2011 and named AMSC Windtec GmbH ("AMSC Austria") as the Respondent. Under the Request for Arbitration, Ghodawat alleged 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 amounted to approximately €18 million ($24 million). AMSC Austria submitted counterclaims under the License Agreement against Ghodawat in the amount of approximately €6 million ($8.0 million). On August 29, 2014, the ICC Court ruled that AMSC Austria was liable for damages and awarded Ghodowat approximately €8.3 million (approximately $10.6 million), which includes reimbursement of legal costs and associated expenses. Interest on this amount will accrue at a rate of 5.33% from the date of award. We had recorded a loss contingency of $0.5 million based on our assessment of probable losses on this claim in a prior period. As a result of the arbitration award liability, we recorded a charge of $10.2 million during the three months ended September 30, 2014.

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. On January 26, 2014, the Supreme People's Court ruled to uphold the Beijing Higher People's Court ruling that the dispute shall be heard by the court. On September 15, 2014, the Beijing No. 1 Intermediate People's Court held its first substantive hearing in the Beijing case. At the hearing, the parties presented evidence, reviewed claims, and answered questions from the court. We are awaiting a decision from the Beijing No. 1 Intermediate People's Court.

We submitted a civil action application to the Beijing Higher People's Court against Sinovel and certain of its employees for trade secret infringement on September 13, 2011 under the caption (2011) Gao Min Chu Zi No. 4193. The application alleges the defendants' unauthorized use of portions of our wind turbine control software source code developed for Sinovel's 1.5MW wind turbines as described above with respect to the Copyright Action. We are seeking monetary damages of 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. 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 February 24, 2014, the Beijing No. 1 Intermediate People's Court denied Sinovel's motion to remove and transfer the case. On March 13, 2014, Sinovel filed an appeal of the Beijing No. 1 Intermediate People's Court decision to the Beijing Higher People's Court. On August 7, 2014, the Beijing Higher People's Court upheld the Beijing No.1 Intermediate Court's decision and rejected Sinovel's appeal regarding the jurisdiction opposition. We are currently awaiting notice from the Beijing No. 1 Intermediate People's Court regarding the first hearing date.

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 our 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 our appeal on May 29, 2013. On January 26, 2014, the Supreme People's Court revoked Hainan No. 1 Intermediate People's Court and Hainan Higher People's Court rulings and ruled that the case shall be heard by the Hainan No. 1 Intermediate People's Court. The Hainan No. 1 Intermediate People's Court accepted the case under the caption (2014) Hainan Yi Zhong Min San Chu Zi No. 1. On October 21, 2014, the Hainan No. 1 Intermediate People's Court changed the caption of this case to (2014) Hainan Yi Zhong Zhi Min Chu Zi No. 2, and scheduled the first hearing date to be held on November 18, 2014.

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, 2014, which could materially affect our business, financial condition or future results. To the best of our knowledge, as of the date of this report there have been no

material change in the risk factors described in our Annual Report on Form 10-K.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

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

SIGNATURE

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

AMERICAN SUPERCONDUCTOR CORPORATION

Date: November 6, 2014 By: /s/ David A. Henry
David A. Henry
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

| Exhibit | | Incorporated by Reference | | | Filing | Filed |
|---|---|---|---|---|---|---|
| Number | Exhibit Description | Form | File No. | Exhibit | Date | Herewith |
| 4.1 | Form of Indenture. | S-3 | 333-198851 | 4.1 | 9/19/14 | |
| +10.1 | Supply Contract, effective as of August 15, 2014, by and between Inox Wind Limited and American Superconductor Corporation. | | | | | * |
| 10.2 | Executive Incentive Plan for fiscal year ending March 31, 2015. | | | | | * |
| 10.3 | 2007 Stock Incentive Plan, as amended. | 8-K | 000-19672 | 10.1 | 8/6/14 | |
| 10.4 | Amended and Restated 2007 Director Stock Plan. | 8-K | 000-19672 | 10.2 | 8/6/14 | |
| 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
+ Confidential treatment has been requested with respect to certain portions of this exhibit, which portions have been filed separately with the Securities and Exchange Commission.

Attached as Exhibits 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheet as of September 30, 2014 and March 31, 2014 (ii) Condensed Statements of Operations and Income for the three and six months ended September 30, 2014 and 2013, (iii) Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and six months ended September 30, 2014 and 2013, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2014 and 2013, and (v) Notes to Condensed Consolidated Financial Statements.