AMERICAN SUPERCONDUCTOR CORP /DE/
Form 10-Q
September 23, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended: June 30, 2011

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

Commission File Number: 0-19672

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

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

(978) 842-3000

(Registrant s telephone number, including area code)

N/A

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

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

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 þ No o

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 þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

(Do not check if a 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 o No þ

Shares outstanding of the Registrant s common stock:

Common Stock, par value $0.01 per share	**50,868,708**
Class	**Outstanding as of September 15, 2011**

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

	June 30, 2011	March 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 130,885	$ 123,783
Marketable securities	25,894	116,126
Accounts receivable, net	11,652	17,233
Inventory	31,068	25,828
Prepaid expenses and other current assets	39,073	30,785
Advance payment for planned acquisition	20,551	
Restricted cash	6,516	5,566
Deferred tax assets	484	484
Total current assets	266,123	319,805
Property, plant and equipment, net	98,615	96,494
Intangibles, net	6,650	7,054
Restricted cash	2,857	
Deferred tax assets	5,840	5,840
Other assets	13,577	12,016
Total assets	$ 393,662	$ 441,209
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 66,395	$ 90,273
Adverse purchase commitments	40,292	38,763
Line of credit	4,641	
Deferred revenue	13,676	10,304
Deferred tax liabilities	5,840	5,840
Total current liabilities	130,844	145,180
Deferred revenue	2,063	2,181
Deferred tax liabilities	484	484
Other	530	509
Total liabilities	133,921	148,354

Commitments and contingencies (Note 10)		
Stockholders equity:		
Common stock	509	507
Additional paid-in capital	889,394	885,704
Treasury stock	(271)	
Accumulated other comprehensive income	4,961	3,817
Accumulated deficit	(634,852)	(597,173)
Total stockholders equity	259,741	292,855
Total liabilities and stockholders equity	$ 393,662	$ 441,209

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

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

	Three months ended June 30,	
	2011	**2010**
Revenues	$ 9,058	$ 97,209
Cost and operating expenses:		
Cost of revenues	16,955	58,224
Research and development	8,136	7,335
Selling, general and administrative	21,990	15,183
Amortization of acquisition related intangibles	304	386
Total cost and operating expenses	47,385	81,128
Operating (loss) income	(38,327)	16,081
Interest income, net	241	175
Other income, net	566	171
Income (loss) before income tax expense	(37,520)	16,427
Income tax expense	159	7,257
Net (loss) income	$ (37,679)	$ 9,170
Net (loss) income per common share		
Basic	$ (0.74)	$ 0.20
Diluted	$ (0.74)	$ 0.20
Weighted average number of common shares outstanding		
Basic	50,709	45,242
Diluted	50,709	45,983

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

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

	Three months ended June 30,	
	2011	**2010**
Net (loss) income	$ (37,679)	$ 9,170
Other comprehensive income (loss), net of tax:		
Foreign currency translation gains (losses)	1,134	(12,336)
Unrealized gains (losses) on investments	10	(165)
Total other comprehensive income (loss), net of tax	1,144	(12,501)
Comprehensive loss	$ (36,535)	$ (3,331)

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

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

	Three months ended June 30, 2011	Three months ended June 30, 2010
Cash flows from operating activities:		
Net (loss) income	$ (37,679)	$ 9,170
Adjustments to reconcile net (loss) income to net cash used in operations:		
Depreciation and amortization	3,242	2,654
Stock-based compensation expense	3,466	3,578
Provision for excess and obsolete inventory	413	
Losses on purchase commitments	1,071	
Allowance for doubtful accounts		957
Deferred income taxes		2,027
Other non-cash items	827	320
Changes in operating asset and liability accounts:		
Accounts receivable	670	(35,848)
Inventory	(5,324)	(5,654)
Prepaid expenses and other current assets	(7,812)	(1,616)
Accounts payable and accrued expenses	(19,732)	(2,140)
Deferred revenue	3,084	8,073
Net cash used in operating activities	(57,774)	(18,479)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(4,498)	(8,185)
Purchase of marketable securities		(15,061)
Proceeds from maturities of marketable securities	90,800	24,189
Change in restricted cash	(3,763)	257
Purchase of intangible assets	(240)	(1,230)
Purchase of minority investments	(1,800)	
Advance payment for planned acquisition	(20,551)	
Change in other assets	(195)	(11)
Net cash provided by (used in) investing activities	59,753	(41)
Cash flows from financing activities:		
Payments in lieu of issuance of common stock for payroll taxes	(271)	
Net borrowings on line of credit	4,626	
Proceeds from exercise of employee stock options and ESPP	21	561
Net cash provided by financing activities	4,376	561
Effect of exchange rate changes on cash and cash equivalents	747	(4,791)

Net increase in cash and cash equivalents	7,102	(22,750)
Cash and cash equivalents at beginning of period	123,783	87,594
Cash and cash equivalents at end of period	$ 130,885	$ 64,844
Supplemental schedule of cash flow information:		
Cash paid for income taxes	$ 12,485	$ 4,453
Non-cash contingent consideration in connection with acquisitions		4,004
Non-cash issuance of common stock	205	189

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

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AMERICAN SUPERCONDUCTOR CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Business and Basis of Presentation

American Superconductor Corporation (the Company or AMSC) was founded on April 9, 1987. The Company is a leading provider of megawatt-scale solutions that lower the cost of wind power and enhance the performance of the power grid. In the wind power market, the Company enables manufacturers to field 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. The Company operates in two business units: AMSC Power Systems and AMSC Superconductors.

These unaudited condensed consolidated financial statements of the Company have been prepared in accordance with the Securities and Exchange Commission s (SEC) instructions to Form 10-Q. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States (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 June 30, 2011 and 2010 and the financial position at June 30, 2011. The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation. Certain reclassifications of prior year amounts have been made to conform to current year presentation. These reclassifications had no effect on net income, cash flows from operating activities or stockholders equity.

On March 12, 2011, the Company entered into a definitive agreement to acquire The Switch Engineering Oy, (The Switch), headquartered in Vantaa, Finland. The Switch designs, manufactures and markets wind power products, including permanent magnet generators and power converter systems, as well as grid products such as commercial and small utility-scale solar inverters to customers in Asia, including China, Europe and North America.

As of April 1, 2011, the Company segmented its operations into two new market-facing business units: Wind and Grid. The Company believes this market-centric structure enables it to more effectively anticipate and meet the needs of wind turbine manufacturers, power generation project developers and electric utilities.

> *Wind.* Through the Windtec brand, the Wind business enables manufacturers to field wind turbines with exceptional power output, reliability and affordability. The Company licenses its highly engineered wind turbine designs, provides extensive customer support services and supplies advanced power electronics and control systems to wind turbine manufactures. The Company s design portfolio includes a broad range of drive trains and power ratings up to 10 megawatts. The Company believes its unique engineering capabilities, ranging from bearings to advanced synchronous generators to blades, enables it to provide its partners with highly-optimized wind turbine platforms. Furthermore, these designs and support services typically lead to sales of its power electronics and software-based control systems, which are designed for optimized performance, efficiency and grid compatibility.
>
> *Grid.* The Grid segment enables electric utilities and renewable energy project developers to connect, transmit and distribute power with exceptional efficiency, reliability and affordability. The Company provides transmission planning services that allows it to identify power grid congestion, poor power quality and other risks, which helps it 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.

Prior to April 1, 2011, the Company segmented its operations through two technology-centric business units: AMSC Power Systems and AMSC Superconductors. AMSC Power Systems included all of its Wind products, as well as Grid products that regulate voltage for wind farm voltage electric utilities, renewable generation project developers and industrial operations. Solutions from the Company s AMSC Superconductors business unit have been incorporated into its Grid business unit. All prior period segment disclosures have been revised to conform to management s current view of the Company s business segments.

At June 30, 2011, the Company had cash, cash equivalents, marketable securities and restricted cash of $166.2 million. The Company s business plan anticipates a substantial decline in revenues and a substantial use of cash from operations in its fiscal year ending March 31, 2012, particularly in light of the difficult and uncertain current economic environment, the significant restructuring actions undertaken and the uncertainty surrounding Sinovel Wind Group Co. Ltd. (Sinovel), which has historically accounted for more than two-thirds of the Company s revenues, and certain of its other customers in China. The Company s plan includes a significant restructuring undertaken in August 2011, resulting in the elimination of approximately 150 positions worldwide. Since April 1, 2011, the Company has eliminated approximately 30% of its workforce and it expects to save approximately $30 million annually as a result of these reductions. Additional actions include further monitoring of its operating results against expectations and, if required, further reducing operating costs and capital spending if events warrant in order to enhance liquidity. Due to the disruption in its relationship with Sinovel, the Company will need to raise additional capital in order to complete the planned acquisition of The Switch in order to have sufficient cash to fund its working capital, capital expenditures and other cash requirements. The Company may seek this financing through public or private equity offerings, debt financings, or other financing alternatives, however, there can be no assurance that financing will be available on acceptable terms or at all. If the Company fails to raise sufficient additional funds and terminates the purchase agreement for the acquisition of The Switch, it will likely forfeit the $20.6 million cash advance payment it paid to the shareholders of The Switch on June 29, 2011. In the event that the Company does not receive any additional payments from Sinovel and it neither completes the planned acquisition of The Switch, nor raises additional capital, the Company believes that its available cash, together with additional reductions in operating costs and capital expenditures as necessary will be sufficient to fund its operations, capital expenditures and other cash requirements through at least March 31, 2012. The Company s long-term liquidity is dependent on its ability to profitably grow its revenues or raise additional capital as required.

The results of operations for an interim period are not necessarily indicative of the results of operations to be expected for the fiscal year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the fiscal year ended March 31, 2011 (fiscal 2010) which are contained in the Company s Annual Report on Form 10-K.

The Company s fiscal year begins on April 1 and ends on March 31. This document refers to fiscal 2011, which is defined as the period beginning on April 1, 2011 and concluding on March 31, 2012. The first quarter of fiscal 2011 began on April 1, 2011 and concluded on June 30, 2011.

2. Restatement of Fiscal 2010 Unaudited Condensed Consolidated Financial Statements

The Company previously restated its unaudited condensed consolidated financial statements for the fiscal quarters ended September 30, 2010 and December 31, 2010 as reflected in amended Quarterly Reports on Form 10-Q for the applicable periods. The restatements related to the Company s determination that revenues were incorrectly recorded in the second quarter of fiscal 2010 for certain of the Company s customers in China as the fee was not fixed or determinable or collectability was not reasonably assured at the time of shipment. Further, as a result of aging receivables and other negative events surrounding the customer relationship, the Company concluded that revenue related to shipments to Sinovel was incorrectly recorded in the third quarter of fiscal 2010 as collectability was not reasonably assured at the time of shipments. For Sinovel and certain other customers in China, the Company has restated revenues based on a cash basis of accounting with cash applied first against accounts receivable balances, as in the case of Sinovel as of September 30, 2010, then costs of shipments (inventory and value added taxes) before recognizing any gross margin. For certain Chinese customers other than Sinovel, the Company has determined that this method of accounting should have been applied for shipments after August 31, 2010. For Sinovel, the Company has determined that this method of accounting should have been applied for shipments after September 30, 2010. The Company had previously recognized revenues in the quarters ended September 30, 2010 and December 31, 2010 based on the receipt of shipments by these customers but prior to the Company s receipt of payment for such shipments.

In connection with the errors identified by the Company resulting in the restatement of the Company s unaudited condensed consolidated financial statements for the quarterly periods ending September 30, 2010 and December 31, 2010, the Company identified control deficiencies in its internal controls that constitute material weaknesses. The deficiencies center on its controls over its revenue and accounts receivable balances, as fees were not fixed or determinable or collectability was not reasonably assured at the time revenue was recognized. As a result of these deficiencies, the Company determined that its disclosure controls and procedures were ineffective as of September 30, 2010, December 31, 2010, March 31, 2011, and June 30, 2011.

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3. 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 months ended June 30, 2011 and 2010 (in thousands):

	Three months ended June 30,	
	2011	2010
Cost of revenues	$ 329	$ 383
Research and development	660	468
Selling, general and administrative	2,477	2,727
Total	$ 3,466	$ 3,578

During the three months ended June 30, 2011, the Company granted approximately 634,000 and 213,000 shares of stock options and restricted stock, respectively, to employees under the 2007 Stock Incentive Plan. The restricted stock granted during the three months ended June 30, 2011 includes approximately 5,000 shares of performance-based restricted stock, which will vest upon achievement of certain financial performance measurements. At June 30, 2011, the Company determined that achievement of the performance measures are probable and as such, will recognize the fair value of the performance based awards over the estimated period of each award. The remaining shares granted vest upon the passage of time, generally 3 years. For awards that vest upon the passage of time, expense is being recorded over the vesting period.

In connection with the vesting of certain restricted stock awards issued to certain executive officers of the Company, these employees paid withholding taxes due by returning 23,861 shares valued at $0.3 million. The Company has recorded these shares as treasury stock as of June 30, 2011.

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 $12.6 million for the three months ended June 30, 2011. This expense will be recognized over a weighted average expense period of approximately 2.6 years. The total unrecognized compensation cost for unvested outstanding restricted stock was $6.5 million for the three months ended June 30, 2011. This expense will be recognized over a weighted average expense period of approximately 2.3 years.

The weighted-average assumptions used in the Black-Scholes valuation model for stock options granted during the three months ended June 30, 2011 and 2010 are as follows:

	Three months ended June 30,	
	2011	2010
Expected volatility	67.5%	66.4%
Risk-free interest rate	1.9%	2.2%
Expected life (years)	5.9	6.1
Dividend yield	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 U.S. Treasury rates

The Company recorded $0.6 million of stock compensation expense in the three months ended June 30, 2011 related to outstanding stock options of the former Chief Executive Officer as discussed in Note 14, Chief Executive Officer Transition.

4. Computation of Net (Loss) Income per Common Share

Basic net (loss) income per share (EPS) is computed by dividing net (loss) income by the weighted-average number of common shares outstanding for the period. Where applicable, diluted EPS is computed by dividing the net (loss) income by the weighted-average number of common shares and dilutive common equivalent shares outstanding during the period, calculated using the treasury stock method. Common equivalent shares include the effect of restricted stock, exercise of stock options and warrants and contingently issuable shares. For the three months ended June 30, 2011 and 2010, common equivalent shares of 3.0 million shares and 1.4 million shares, respectively, were not included in the calculation of diluted EPS as they were considered anti-dilutive.

The following table reconciles the numerators and denominators of the earnings per share calculation for the three months ended June 30, 2011 and 2010 (in thousands, except per share data):

	Three months ended June 30,	
	2011	**2010**
Numerator:		
Net (loss) income	$ (37,679)	$ 9,170
Denominator:		
Weighted-average shares of common stock outstanding	51,172	45,454
Weighted-average shares subject to repurchase	(463)	(212)
Shares used in per-share calculation basic	50,709	45,242
Dilutive effect of employee equity incentive plans		741
Shares used in per-share calculation diluted	50,709	45,983
Net (loss) income per share basic	$ (0.74)	$ 0.20
Net (loss) income per share diluted	$ (0.74)	$ 0.20

5. Fair Value Measurements

In January 2010, the Financial Accounting Standards Board (FASB) issued guidance related to disclosures of fair value measurements. The guidance requires gross presentation of activity within the Level 3 measurement roll-forward and details of transfers in and out of Level 1 and 2 measurements. It also clarifies two existing disclosure requirements on the level of disaggregation of fair value measurements and disclosures on inputs and valuation techniques. A change in the hierarchy of an investment from its current level will be reflected in the period during which the pricing methodology of such investment changes. Disclosure of the transfer of securities from Level 1 to Level 2 or Level 3 will be made in the event that the related security is significant to total cash and investments. The Company did not have any transfers of assets and liabilities between Level 1 and Level 2 of the fair value measurement hierarchy during the three months ended June 30, 2011.

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

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

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

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

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

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The following table provides the assets carried at fair value, measured as of June 30, 2011 and March 31, 2011 (in thousands):

	Total Carrying Value	Quoted Prices in Active Markets (Level 1)	Using Significant Other Observable Inputs (Level 2)	Using Significant Unobservable Inputs (Level 3)
June 30, 2011:				
Assets:				
Cash equivalents	$ 99,546	$ 99,546	$	$
Short-term commercial paper	5,373		5,373	
Short-term government-backed securities	20,521		20,521	

	Total Carrying Value	Quoted Prices in Active Markets (Level 1)	Using Significant Other Observable Inputs (Level 2)	Using Significant Unobservable Inputs (Level 3)
March 31, 2011:				
Assets:				
Cash equivalents	$ 49,837	$ 49,837	$	$
Short-term government-backed securities	76,371		76,371	
Short-term commercial paper	39,755		39,755	
Derivatives	3,087		3,087	

Valuation Techniques

Cash Equivalents

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

Marketable Securities

Marketable securities consist primarily of government-backed securities and commercial paper and are measured using such inputs as quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset (for example, interest rates and yield curves observable at commonly quoted intervals), and inputs that are derived principally from or corroborated by observable market data by correlation or other means, and are classified within Level 2 of the valuation hierarchy. The Company s marketable securities generally have maturities of greater than three months from original purchase date but less than twelve months from the date of the balance sheet. The Company determines the appropriate classification of its marketable securities at the time of purchase and re-evaluates such classification as of each balance sheet date. All marketable securities are considered available-for-sale and are carried at fair value. The Company periodically reviews the realizability of each short-term and long-term marketable security when impairment indicators exist with respect to the security. If an other-than-temporary impairment of value of the security exists, the carrying value of the security is written down to its estimated fair value.

Derivatives

The derivatives entered into by the Company are valued using over-the-counter quoted market prices for similar instruments, and are classified within Level 2 of the valuation hierarchy.

6. Accounts Receivable

Accounts receivable consisted of the following (in thousands):

	June 30, 2011	March 31, 2011
Accounts receivable (billed)	$ 8,593	$ 12,912
Accounts receivable (unbilled)	3,747	5,004
Less: Allowance for doubtful accounts	(688)	(683)
Accounts receivable, net	$ 11,652	$ 17,233

7. Inventory

The components of inventory are as follows (in thousands):

	June 30, 2011	March 31, 2011
Raw materials	$ 19,800	$ 17,100
Work-in-process	4,423	2,432
Finished goods	4,413	3,915
Deferred program costs	2,432	2,381
Net inventory	$ 31,068	$ 25,828

Deferred program costs as of June 30, 2011 and March 31 2011 primarily represent costs incurred on D-VAR turnkey projects and programs accounted for under contract accounting where the Company needs to complete development programs before revenue and costs will be recognized, respectively.

8. Product Warranty

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

Product warranty activity was as follows (in thousands):

	Three months ended June 30,	
	2011	2010
Balance at beginning of period	$ 7,907	$ 6,431
Accruals for warranties during the period	(405)	2,305
Settlements during the period	(168)	(2,361)
Balance at end of period	$ 7,334	$ 6,375

9. Income Taxes

For the three months ended June 30, 2011 and 2010, the Company recorded an income tax expense of $0.2 million and $7.3 million, respectively. The Company has provided a valuation allowance against all deferred tax assets as of June 30, 2011, as it is more likely than not that its deferred tax assets are not currently realizable due to the net operating losses incurred by the Company since its inception.

10. Commitments and Contingencies

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. Any commitments for products ordered but not yet received is included as purchase commitments in its contractual obligations table. 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 June 30, 2011, the Company has $40.3 million of adverse purchase commitments in excess of its estimated future demand from certain of its customers in China, which the Company has recorded as a liability. During three months ended June 30, 2011, the Company recorded losses of $1.1 million to cost of revenues as a result of commitments to purchase materials that were in excess of its estimated future demand from certain of its customers in China.

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 the loss is not probable or cannot be reasonably estimated, a liability is not recorded in its consolidated financial statements.

Between April 6, 2011 and April 29, 2011, six 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. On May 12, 2011, an additional complaint was filed against the Company, its officers and directors, and the underwriters who participated in the Company s November 12, 2010 securities offering. On June 7, 2011, the United States District Court for the District of Massachusetts consolidated these actions under the caption *Lenartz v. American Superconductor Corporation, et al.* Docket No. 1:11-cv-10582-WGY. On June 16, 2011, the court appointed the law firm Robbins Geller Rudman & Dowd LLP as Lead Counsel and the Plumbers and Pipefitters National Pension Fund as Lead Plaintiff. On August 31, 2011, the Lead Plaintiff filed a consolidated amended complaint against the Company, its officers and directors, and the underwriters who participated in the Company s November 12, 2010 securities offering, asserting claims under sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, as well as under sections 11, 12(a)(2) and 15 of the Securities Act of 1933. The complaint alleges that during the relevant class period, the Company and its officers omitted to state material facts and made materially false and misleading statements relating to, among other things, the Company s projected and recognized revenues and earnings, as well as the Company s relationship with Sinovel Wind Group Co., Ltd. that artificially inflated the value of the Company s stock price. The complaint further alleges that the Company s November 12, 2010 securities offering contained untrue statements of material facts and omitted to state material facts required to be stated therein. The plaintiffs seek unspecified damages, rescindment of the Company s November 12, 2010 securities offering, and an award of costs and expenses, including attorney s fees.

On April 27, 2011, a putative shareholder derivative complaint was filed against the Company (as a nominal defendant) and each of its current directors in Superior Court for the Commonwealth of Massachusetts, Worcester County. The case is captioned *Segel v. Yurek, et al.*, Docket No. 11-0787. Between May 4, 2011 and June 17, 2011, four additional putative shareholder derivative complaints were filed in the United States District Court for the District of Massachusetts against the Company and certain of its directors and officers. The cases are captioned *Weakley v. Yurek, et al.*, Docket No. 1:11-cv-10784; *Marlborough Family Revocable Trust v. Yurek, et al.*, Docket No. 1:11-cv-10825; *Connors v. Yurek, et al.*, Docket No. 1:11-cv-10910; and *Hurd v. Yurek, et al.*, Docket No. 1:11-cv-11102. On June 1, 2011, the plaintiff in *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 June 3, 2011. The case is now captioned *Marlborough Family Revocable Trust v. Yurek, et al.*, Docket No. 11-1961. The Superior Court in Worcester County granted the plaintiff s motion to transfer in *Segel v. Yurek et al.* to the Superior Court for the Commonwealth of Massachusetts, Middlesex County on June 23, 2011, and that matter is now captioned *Segel v. Yurek et al.*, Docket No. 11-2269. On July 5, 2011, the *Weakley*, *Connors* and *Hurd* actions were consolidated in United States District Court for the District of Massachusetts. That matter is now captioned *In re American Superconductor Corporation Derivative Litigation*, Docket No. 1:11-cv-10784. On June 1, 2011, the plaintiff in *Marlborough Family Revocable Trust v. Yurek, et al.* moved to voluntarily dismiss its complaint and, on June 3, 2011, refiled its complaint in Superior Court for the Commonwealth of Massachusetts, Middlesex County. The Superior Court in Worcester County granted the plaintiff s motion to transfer in *Segel v. Yurek et al.* to the Superior Court for the Commonwealth of Massachusetts, Middlesex County on June 23, 2011. On September 7, 2011, the *Marlborough* and *Segel* actions were consolidated in Superior Court for the Commonwealth of Massachusetts, Middlesex County. The case is

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now captioned *Marlborough Family Revocable Trust v. Yurek, et al.*, Docket No. 11-1961. The allegations of the derivative complaints mirror the allegations made in the putative class action complaints described above. The plaintiffs purport to assert claims against the director defendants for breach of fiduciary duty, abuse of control, gross mismanagement and corporate waste. The plaintiffs seek unspecified damages on behalf of the Company, as well as an award of costs and expenses, including attorney s fees.

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

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. (AMSC China), filed a claim for arbitration with the Beijing Arbitration Commission in accordance with the terms of the Company s supply contracts with Sinovel. 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 the Company 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 (including interest) and monetary damages due to Sinovel s breaches of its contracts. The Company is also seeking specific performance of our existing contracts as well as reimbursement of all costs and reasonable expenses with respect to the arbitration.

The Company also submitted a civil action application to the Beijing No. 1 Intermediate People s Court against Sinovel for software copyright infringement. 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 AMSC Windtec GmbH subsidiary was arrested in Austria and is currently awaiting trial on charges of economic espionage and fraudulent manipulation of data. 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 that 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. The Company is seeking a cease and desist order with respect to the unauthorized copying, installation and use of its software, monetary damages for our economic losses and reimbursement of all costs and reasonable expenses. The court must accept the application in order for the case to proceed, and there can be no assurance that the court will do so.

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. 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 for the trade secret infringement as well as reimbursement of all costs and reasonable expenses. The court must accept the application in order for the case to proceed, and there can be no assurance that the court will do so.

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., a wind farm operator that has purchased Sinovel wind turbines containing Goutong power converter products. 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 its 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 for its economic losses (with respect to Guotong only) and reimbursement of all costs and reasonable expenses.

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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 June 30, 2011, the Company had nine performance bonds on behalf of AMSC Windtec and its wholly-owned Chinese subsidiary, Suzhou AMSC Superconductor Co. Ltd (AMSC China), in support of customer contracts to guarantee supply of core components and software. The total value of the outstanding performance bonds is $2.3 million with various expiration dates through March 2014. In the event that the payment is made in accordance with the requirements of any of these performance bonds, the Company would record the payment as an offset to revenue.

At June 30, 2011, the Company had $6.5 million of restricted cash included in current assets. At June 30, 2011, the Company had $2.9 million of restricted cash included in long term assets with various expiration dates through March 2014. These amounts included in restricted cash represent deposits to secure letters of credit for various supply contracts. These deposits are held in an interest bearing account. The Company had an additional $2.5 million in unsecured letters of credit at June 30, 2011 in support of various supply contracts.

The Company had unused, unsecured lines of credit consisting of RMB 114.8 million (approximately $17.8 million) in China and 1.6 million (approximately $2.3 million) in Austria as of June 30, 2011. In July 2011, the Bank of China informed the Company that its unsecured credit line of approximately RMB 100.0 million (approximately $15.5 million), which expired in August 2011, would not be renewed. As of June 30, 2011, the Company had net borrowings on lines of credit outstanding of $4.6 million.

11. Equity Investments

Investment in Tres Amigas

On October 9, 2009, the Company made an investment in Tres Amigas LLC, (Tres Amigas), a merchant transmission company, for $1.8 million, consisting of $0.8 million in cash and $1.0 million in AMSC common stock. On January 6, 2011 and May 20, 2011, the Company increased its minority position in Tres Amigas by an additional $1.8 million on each date. As of June 30, 2011, the Company holds a 37% ownership interest.

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 June 30, 2011. The investment is carried at the 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 income (expense), net, on the consolidated statements of operations.

The net investment activity for the three months ended June 30, 2011 is as follows (in thousands):

Balance at April 1, 2011	$ 3,026
Purchase of minority investment	1,800
Minority interest in net losses	(191)
Balance at June 30, 2011	$ 4,635

Investment in Blade Dynamics Ltd.

On August 12, 2010, the Company acquired (through AMSC Windtec), a minority ownership position in Blade Dynamics Ltd. (Blade Dynamics), a designer and manufacturer of advanced wind turbine blades based on proprietary materials and structural technologies, for $8.0 million in cash. The Company uses the equity method of accounting for this

investment since it does not have a controlling ownership interest in the operating and financial policies of Blade Dynamics. As such, the investment is carried at the acquisition cost, plus the Company s equity in undistributed earnings or losses. The Company s investment is included in other assets on the unaudited condensed consolidated balance sheet and the minority interest in net losses of Blade Dynamics is included in other income (expense), net, on the unaudited condensed consolidated statements of operations. As of June 30, 2011, the Company holds a 25% ownership interest. The net investment activity for the three months ended June 30, 2011 is as follows (in thousands):

Balance at April 1, 2011	$ 7,903
Minority interest in net losses	(426)
Net foreign exchange rate impact	164
Balance at June 30, 2011	$ 7,641

12. Business Segments

Business segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in assessing performance and deciding how to allocate resources.

As of April 1, 2011, the Company segmented its operations into two new market-facing business units: Wind and Grid. The Company believes this market-centric structure enables it to more effectively anticipate and meet the needs of wind turbine manufacturers, power generation project developers and electric utilities.

Wind. Through the Windtec brand, the Wind business unit enables manufacturers to field wind turbines with exceptional power output, reliability and affordability. The Company licenses its highly engineered wind turbine designs, provides extensive customer support services and supplies advanced power electronics and control systems to wind turbine manufactures. The Company s design portfolio includes a broad range of drive trains and power ratings up to 10 megawatts. The Company believes its unique engineering capabilities, ranging from bearings to advanced synchronous generators to blades, enables it to provide its partners with highly-optimized wind turbine platforms. Furthermore, these designs and support services typically lead to sales of its power electronics and software-based control systems, which are designed for optimized performance, efficiency and grid compatibility.

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

Prior to April 1, 2011, the Company segmented its operations through two technology-centric business units: AMSC Power Systems and AMSC Superconductors. AMSC Power Systems included all of its Wind products, as well as Grid products that regulate voltage for wind farm voltage electric utilities, renewable generation project developers and industrial operations. Solutions from the Company s AMSC Superconductors business unit have been incorporated into its Grid business unit. All prior period segment disclosures have been revised to conform to management s current view of the Company s business segments.

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

	Three months ended June 30,	
	2011	2010
Revenues:		
Wind	$ 4,262	$ 83,006
Grid	4,796	14,203
Total	$ 9,058	$ 97,209

	Three months ended June 30,	
	2011	2010
Operating (loss) income:		
Wind	$ (24,370)	$ 31,339
Grid	(10,552)	(11,764)
Unallocated corporate expenses	(3,405)	(3,494)
Total	$ (38,327)	$ 16,081

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

Unallocated corporate expenses include stock-based compensation expense of $3.5 million for the three months ended June 30, 2011 and 2010.

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

	June 30, 2011	March 31, 2011
Wind	$ 127,360	$ 145,464
Grid	64,252	67,081
Corporate assets	202,050	228,664
Total	$ 393,662	$ 441,209

The following table sets forth customers who represented 10% or more of the Company s total revenues for the three months ended June 30, 2011 and 2010:

	Three months ended June 30,	
	2011	2010

Department of Energy	17%	<10%
Doosan Heavy Industries & Construction Co Ltd.	15%	<10%
Shenyang Blower Works Group Wind Power Co.,Ltd.	13%	<10%
Sinovel Wind Co., Ltd	%	72%

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13. Planned Acquisition of The Switch

On March 12, 2011, the Company entered into a Share Purchase Agreement (the Agreement), by and among the Company and the shareholders of The Switch Engineering Oy, a power technologies company headquartered in Finland (The Switch).

On June 29, 2011, the Company entered into an amendment agreement (the Amendment), by and among the Company and the shareholders (the Shareholders) of The Switch, amending the Agreement. Pursuant to the Agreement, as amended by the Amendment, the Company has agreed to acquire all of the outstanding shares of The Switch for an aggregate purchase price (based on an exchange rate of $1.44 per Euro) of (i) $273.6 million, payable as follows: (1) $20.6 million in cash in the form of an advance payment (the Advance Payment), which was paid on June 29, 2011 and is classified as advance payment for planned acquisition on the unaudited condensed consolidated balance sheet as of June 30, 2011, (2) $171.0 million in cash at the closing of the acquisition and (3) the issuance at the closing of the acquisition shares of our common stock, $0.01 par value per share, with a value of $82.1 million based on the average closing price of the common stock during the 20 trading days preceding the second business day prior to the closing of the acquisition and the U.S. dollar to euro exchange rate on the second business day prior to the closing of the acquisition, and (ii) in the event closing occurs after September 1, 2011, interest at an annual rate of 4% on $171.0 million, accruing from September 1, 2011 to and including the closing date, payable in cash at the closing of the acquisition. In the event that the total number of shares of common stock issuable to the shareholders of The Switch exceeds 19.9% of the total number of shares of common stock outstanding prior to such issuance, in lieu of the issuance of such excess shares, the Company agreed to pay additional cash at the closing to the Minor Sellers (as defined in the Agreement) and issue to the remaining shareholders unsecured promissory notes for such excess amount, payable on the first business day after the first anniversary of the closing date.

Pursuant to the Amendment, the parties agreed that the escrow would terminate on June 10, 2012 rather than twelve months after the closing date. The parties also agreed that the closing would take place on the tenth business day after the date on which the Company informs the Shareholders that a financing resulting in post-acquisition net cash available to the Company of at least $100 million has been completed, provided that all other closing conditions have been satisfied or waived. In addition, pursuant to the Amendment, the parties agreed that the Advance Payment shall constitute a termination fee payable to the Shareholders in the event the Agreement, as amended by the Amendment, is terminated should the closing not take place on or before September 30, 2011 (subject to extension for up to two one-month periods, as described in Section 6.6), or 10 business days thereafter in the case of a breach and/or failure to remedy by the Shareholders under Section 6.3.1, (i) by the Shareholders pursuant to Section 6.6(i), or (ii) the Company pursuant to Section 6.6(ii) (which, in the case of Sections 6.6(i) and 6.6(ii), includes upon the occurrence of a Failed Financing Event (as defined in the Amendment) and, in the case of Section 6.6(ii), upon the occurrence of a Material Adverse Effect (as defined in the Share Purchase Agreement)). Upon any such termination and retention by the Shareholders of the Advance Payment, the parties shall have no right to make any further claims against each other.

The Company will require proceeds from an additional financing to finance the planned acquisition of The Switch. Closing of the transaction, which has been approved by both companies Boards of Directors, is subject to customary closing conditions.

14. Chief Executive Officer Transition

On May 24, 2011, the Company announced that Daniel P. McGahn, President and Chief Operating Officer, has been appointed Chief Executive Officer and a member of the Board of Directors, effective June 1, 2011. Mr. McGahn succeeds Gregory J. Yurek, who resigned from his position as Chief Executive Officer of the Company, effective on June 1, 2011. In connection with his retirement and resignation, the Company entered into a retirement and services agreement (the Agreement) with Mr. Yurek pursuant to which Mr. Yurek will serve as a senior advisor to the Company for up to 24 months. The Agreement includes a general release of claims and customary non-compete and non-solicit covenants for the three-year period ending May 31, 2014. Pursuant to this agreement, Mr. Yurek is entitled to receive the following payments and benefits: (i) a total of $2.0 million in cash, of which $83,333 is payable on the final day of each month from June 2011 to August 2012, $50,000 is payable on the final day of September 2012, and $50,000 is payable on the final day of each month from April 2013 to May 2014; and (ii) continued group medical, dental and vision insurance coverage through May 31, 2014. In accordance with the terms of Mr. Yurek s outstanding stock option and restricted stock agreements, the outstanding restricted stock that is unvested as of June 1, 2011 will be forfeited and the outstanding stock options will continue to vest for so long as he continues to serve as an advisor to the Company. Thereafter, any remaining unvested portions of Mr. Yurek s stock options will be cancelled for no consideration. Mr. Yurek agreed to remain as Chairman of the Board until the annual meeting of stockholders or August 15, 2011, whichever occurred first; and will not stand for reelection to the Board at the annual meeting. Mr. Yurek ceased serving as our Chairman of the Board on August 15, 2011. The Agreement replaces and supersedes the Amended and Restated Executive Severance Agreement, dated as of December 23, 2008, between the Company and Mr. Yurek.

The Company recorded costs of $2.7 million within selling, general and administrative expenses of the unaudited condensed consolidated statements of operations for the three months ended June 30, 2011 which consist of $2.1 million severance benefits under the Agreement and $0.6 million of stock compensation expense related to outstanding stock options.

15. Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements,* pertaining to the accounting for revenue arrangements with multiple deliverables. Specifically, the new standard requires an entity to allocate consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. In the absence of the vendor-specific objective evidence or third-party evidence of the selling prices, consideration must be allocated to the deliverables based on management s best estimate of the selling prices. In addition, the new standard eliminates the use of the residual method of allocation. The new accounting standard supersedes the prior multiple element revenue arrangement accounting rules that were previously used by the Company. The Company adopted this new accounting standard on April 1, 2010 using the prospective method and the adoption did not have a material impact on its consolidated financial statements.

In January 2010, the Company adopted Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This standard amends the disclosure guidance with respect to fair value measurements for both interim and annual reporting periods. Specifically, this standard requires new disclosures for significant transfers of assets or liabilities between Level 1 and Level 2 in the fair value hierarchy; separate disclosures for purchases, sales, issuance and settlements of Level 3 fair value items on a gross, rather than net basis; and more robust disclosure of the valuation techniques and inputs used to measure Level 2 and Level 3 assets and liabilities. The Company has included these new disclosures, as applicable, in Note 3, Marketable Securities and Fair Value Disclosures, of the consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-29, *Business Combinations (Topic 805), Disclosure of Supplementary Pro forma Information for Business Combinations a consensus of the FASB Emerging Issues Task Force (ASC 2010-29)*. This amendment clarifies the periods for which pro forma financial information is presented. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. ASU 2010-29 is effective prospectively for business combinations that occur on or after the beginning of the first annual reporting period beginning after December 15, 2010. The Company does not expect the adoption of ASU 2011-04 to have a material impact on the Company s consolidated results of operations, financial condition, or cash flows.

In June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. ASU 2011-05 is effective for fiscal years and interim periods beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-04 to have a material impact on the Company s consolidated results of operations, financial condition, or cash flows.

16. 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.

NASDAQ Notices

On June 17, 2011, the Company received notice from the NASDAQ Stock Market (NASDAQ) stating that the Company is not in compliance with Listing Rule 5250(c)(1) for continued listing due to the Company s inability to file with the SEC the Company s Annual Report on Form 10-K for the year ended March 31, 2011 (the Initial Delinquent Filing) on a timely basis. The notification was issued in accordance with standard NASDAQ procedures and has no immediate effect on the listing or trading of the Company s common stock on the NASDAQ Global Select Market. On

August 16, 2011, the Company received notice from the NASDAQ stating that the Company is not in compliance with Listing Rule 5250(c)(1) for continued listing (i) due to the Company s inability to file with the SEC the Company s Quarterly Report on Form 10-Q for the period ended June 30, 2011, and (ii) because the Company remained delinquent in filing the Company s Annual Report on Form 10-K for the period ended March 31, 2011. The notification was issued in accordance with standard NASDAQ procedures and had no immediate effect on the listing or trading of the Company s common stock on the NASDAQ Global Select Market. Pursuant to NASDAQ s letter dated June 17, 2011, which was disclosed in the Company s Current Report on Form 8-K filed with the SEC on June 21, 2011, the Company had until August 16, 2011 to submit a plan to regain compliance with respect to the Initial Delinquent Filing. The NASDAQ letter dated August 16, 2011 indicated that the Company had until August 30, 2011 to submit an updated plan explaining how it expected to regain compliance. On August 16, 2011, the Company submitted its plan to regain compliance. On August 31, 2011, the Company was informed that NASDAQ had granted an exception to its rules to enable the Company to regain compliance by September 30, 2011. With the filing of the Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, the Annual Report on Form 10-K for the year ended March 31, 2011 and the Amended Quarterly Reports on Form 10-Q as of and for the quarters ended September 30, 2010 and December 31, 2010 and subject to receipt of a confirmation of compliance, the Company will be in compliance with the NASDAQ listing requirements.

Restructuring

The Company initiated a restructuring plan in August 2011 (the 2011 Plan) to reorganize global operations, streamline various functions of the business, and reduce its global workforce to match the demand for its products. The 2011 Plan resulted in a headcount reduction of approximately 150 employees. Coinciding with the 2011 Plan, on August 8, 2011, the Company and Charles W. Stankiewicz, Executive Vice President, Operations and Grid Segment, and Angelo R. Santamaria, Senior Vice President, Global Manufacturing Operations, mutually agreed to end their employment effective on August 23, 2011 and August 12, 2011, respectively. From April 1, 2011 through the date of this filing, the Company has reduced its global workforce by approximately 30%, which is expected to result in annual savings of approximately $30.0 million. As a result of the 2011 Plan, the Company expects to recognize restructuring charges of $3.0 million to $4.0 million in the second quarter of fiscal 2011. These charges primarily relate to severance costs and are expected to be paid through fiscal 2012.

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: a significant portion of our revenues has been derived from Sinovel Wind Group Co. Ltd., (Sinovel), which has stopped accepting scheduled deliveries and refused to pay amounts outstanding; the disruption in our relationship with Sinovel has materially and adversely affected our business and results of operations and if, as we expect, Sinovel continues to refuse to accept shipments from us, our business and results of operations will be further materially and adversely affected; we will require significant additional funding and may be unable to raise capital when needed, which could force us to delay, reduce or eliminate planned activities, including the planned acquisition of The Switch Engineering Oy (The Switch); we have a history of operating losses, and we may incur additional losses in the future; our operating results may fluctuate significantly from quarter to quarter and may fall below expectations in any particular fiscal quarter; if we fail to complete the planned acquisition of The Switch, our operating results and financial condition could be harmed and the price of our common stock could decline; completion of the planned acquisition of The Switch could present certain risks to our business; adverse changes in domestic and global economic conditions could adversely affect our operating results; changes in exchange rates could adversely affect our results from operations; we have identified material weaknesses in our internal control over financial reporting and if we fail to remediate these weaknesses and 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; if we fail to implement our business strategy successfully, our financial performance could be harmed; we may not realize all of the sales expected from our backlog of orders and contracts; many of our revenue opportunities are dependent upon subcontractors and other business collaborators; our products face intense competition, which could limit our ability to acquire or retain customers; 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 acquire additional complementary businesses or technologies, which may require us to incur substantial costs for which we may never realize the anticipated benefits; 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; we depend on sales to customers in China, and global conditions could negatively affect our operating results or limit our ability to expand our operations outside of China; changes in China s political, social, regulatory and economic environment may affect our financial performance; many of our customer relationships outside of the United States are, either directly or indirectly, with 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 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; we are becoming increasingly reliant on contracts that require the issuance of performance bonds; problems with product quality or product performance may cause us to incur warranty expenses and may damage our market reputation and prevent us from achieving increased sales and market share; our success in addressing the wind energy market is dependent on the manufacturers that license our designs; growth of the wind energy market depends largely on the availability and *size of government subsidies and economic incentives; 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; the commercial uses of superconductor products are limited today, and a widespread commercial market for our products may not develop; 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; our contracts with the U.S. government are subject to audit, modification or termination by the U.S. government and include certain other provisions in favor of the government; the continued funding* *of such contracts remains subject to annual congressional appropriation which, if not approved, could reduce our revenue and lower or eliminate our profit; we may be unable to adequately prevent disclosure of trade secrets and other proprietary information; we have filed a demand for arbitration and other lawsuits against Sinovel regarding amounts we contend are due and owing and are in dispute; we cannot be certain as to the outcome of the proceedings against Sinovel; we have been named as a party to purported stockholder class actions and shareholder derivative complaints, and we may be named in additional litigation, all of which will require significant management time and attention, result in significant legal expenses and may result in an unfavorable outcome, which could have a material adverse effect on our business, operating results and financial condition; our 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; our patents may not provide meaningful protection for our technology, which could result in us losing some or all of our market position; 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; and our common stock has experienced, and may continue to experience, significant market price and volume fluctuations, which may prevent our stockholders from selling our common stock at a profit and could lead to costly litigation against us that could divert our management s attention. These and the important factors discussed under the caption Risk Factors in Part II. Item 1A and Part 1. Item 1A of our Form 10-K for the fiscal year ended March 31, 2011, 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 in 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 wind turbines through our advanced engineering, support services and power electronics products. In the power grid market, we enable electric utilities and renewable energy project developers to connect, transmit and distribute power through our transmission planning services and power electronics and superconductor based products. Our wind and power grid products and services provide exceptional reliability, security, efficiency and affordability to our customers.

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

We manufacture products using two proprietary core technologies: PowerModule programmable power electronic converters and our Amperium HTS 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.

On March 12, 2011, we entered into a definitive agreement to acquire The Switch Engineering Oy, (The Switch). The Switch designs, manufactures and markets wind power products, including permanent magnet generators and power converter systems, as well as grid products such as commercial and small utility-scale solar inverters to customers in Asia, including China, Europe and North America.

As of April 1, 2011, we are segmenting our operations into two new 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 brand, our Wind business enables manufacturers to field wind turbines with exceptional power output, reliability and affordability. We license our highly engineered wind turbine

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designs, provide extensive customer support services and supply advanced power electronics and control systems to wind turbine manufactures. Our design portfolio includes a broad range of drive trains and power ratings up to 10 megawatts. We believe our unique engineering capabilities, ranging from bearings to advanced synchronous generators to blades, enables us to provide our partners with highly-optimized wind turbine platforms. Furthermore, these designs and support services typically lead to sales of our power electronics and software-based control systems, which are designed for optimized performance, efficiency and grid compatibility.

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

Prior to April 1, 2011, we segmented our operations through two technology-centric business units: AMSC Power Systems and AMSC Superconductors. AMSC Power Systems included all of our Wind products, as well as Grid products that regulate voltage for wind farm voltage electric utilities, renewable generation project developers and industrial operations. Solutions from our AMSC Superconductors business unit have been incorporated into our Grid business unit.

Our fiscal year begins on April 1 and ends on March 31. This document refers to fiscal 2011, which is defined as the period beginning on April 1, 2011 and concluding on March 31, 2012. The first quarter of fiscal 2011 began on April 1, 2011 and concluded on June 30, 2011.

Our cash requirements depend on numerous factors, including successful completion of our product development activities, ability to commercialize our product prototypes, rate of customer and market adoption of our products, collecting receivables according to established terms, and the continued availability of U.S. government funding during the product development phase. 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 and potential strategic alliances and acquisitions.

As of June 30, 2011 and March 31, 2011, we had backlog of approximately $225.4 million and $228.4 million, respectively, excluding Sinovel. Including Sinovel, as of June 30, 2011 and March 31, 2011, we had backlog of approximately $925.7 million and $921.5 million, respectively. 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. As a result, we have not made shipments to Sinovel since February 2011. If Sinovel continues not to accept these shipments, or terminates, reduces or defers firm orders, we will not be able to complete these shipments and we may not generate the revenue supported by these contracts.

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

While we have had several discussions with Sinovel since March 31, 2011, as of the date of this filing, we have not received payment for any outstanding receivables nor have we been notified as to when, if ever, they will accept contracted shipments that were scheduled for delivery after March 31, 2011. Additionally, based in part upon evidence obtained through an internal investigation and a criminal investigation conducted by Austrian authorities regarding the actions of a former employee of our AMSC Windtec subsidiary, we believe that Sinovel illegally obtained and used our intellectual property in violation of civil and criminal intellectual property laws. In July 2011, the former employee was arrested in Austria and is currently awaiting trial on charges of economic espionage and fraudulent manipulation of data. As a result of the investigations, 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. Except for portions of this 1.5 MW wind turbine software, we do not believe that the source code for any other turbines, such as the 3MW, 5MW and 6MW wind turbines that were designed by and co-developed with us have been transferred to Sinovel. Moreover, we believe the former employee illegally used source code to

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develop for Sinovel a software modification to circumvent the encryption and remove technical protection measures on the PM3000 power converters in 1.5MW wind turbines in the field. We believe that only the binary code, or upper layer, of the PM3000 software developed to circumvent the encryption and remove technical protection measures was transferred to Sinovel. We do not believe that any PM3000 source code was transferred to Sinovel. These actions potentially enable Sinovel to deploy, independent of us, wind turbine control software, including a low voltage ride through solution, on all of its 1.5MW wind turbines in the field. In addition, by having the wind turbine control source code, Sinovel could potentially modify the source code to allow the use of core electrical components, including power converters, from other manufacturers.

On September 13, 2011, we commenced a series of legal actions in China against Sinovel. We filed a claim for arbitration in Beijing, China to compel Sinovel to pay us for past product shipments and to accept all contracted but not yet delivered core electrical components and spare parts under all existing contracts with us. The arbitration claim was filed with the Beijing Arbitration Commission in accordance with the terms of our supply contracts with Sinovel. We are also in the process of filing civil and criminal complaints against Sinovel. On September 16, 2011, we filed a civil complaint in China against Dalian Guotong Electric, Co., Ltd. and other parties. The complaints allege the illegal use of our intellectual property. We are seeking to compel Sinovel and the other parties to cease and desist from infringing our intellectual property and are also seeking monetary damages to compensate us for our economic losses resulting from the infringement.

We cannot provide any assurance as to the outcome of these legal actions. We are now operating our business under the assumption that Sinovel will not be a customer.

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 first quarter of fiscal 2011 in the critical accounting policies that were disclosed in our Form 10-K for fiscal 2010, which ended on March 31, 2011.

Results of Operations

Three months ended June 30, 2011 compared to the three ended June 30, 2010

Beginning on April 1, 2011, management revised its reportable business segments into Wind and Grid as a result in changes in the manner in which we disaggregate the Company s operations for making operating decisions and assessing performance business segments. Previously, we had two reportable business segments, AMSC Power Systems and AMSC Superconductors. All prior period segment disclosures have been revised to conform to management s current view of its business segments.

As discussed above, the disruption in our relationship with Sinovel has materially and adversely affected our business and results of operations. Because Sinovel has accounted for more than two-thirds of our revenues over each of the past three fiscal years, we experienced significantly lower revenues and significant operating losses during the three months ended June 30, 2011. Revenues to Sinovel represented 0% and 72% of total revenues for the three months ended June 30, 2011 and 2010, respectively. Since no cash payments were made by Sinovel in the three months ended June 30, 2011, no revenue was recognized from Sinovel in the three months ended June 30, 2011.

Revenues

Total revenues decreased by 91% to $9.1 million for the three months ended June 30, 2011, compared to $97.2 million for the three months ended June 30, 2010. Our revenues are summarized as follows (in thousands):

	Three months ended June 30,	
	2011	**2010**
Revenues:		
Wind	$ 4,262	$ 83,006

Grid	4,796	14,203
Total	$ 9,058	$ 97,209

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Our Wind business unit accounted for 47% of total revenues for the three months ended June 30, 2011, compared to 85% for the three months ended June 30, 2010. Revenues in the Wind business unit decreased 95% to $4.3 million in the three months ended June 30, 2011 from $83.0 million in the three months ended June 30, 2010. The decrease in Wind business unit revenues was primarily due to the disruption in our relationship with Sinovel, as described above, which accounted for $70.3 million of revenue for the first quarter of fiscal 2010.

Our Grid business unit accounted for 53% of total revenues for the three months ended June 30, 2011, compared to 15% for the three months ended June 30, 2010. Our Grid business unit revenues decreased 66% to $4.8 million in the three months ended June 30, 2011 from $14.2 million for the three months ended June 30, 2010. The decrease in Grid business unit revenues were due primarily to reduced DVAR product sales, due in part to strong shipments in the fourth quarter of quarter of fiscal 2010.

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

Project name	Expected total contract value	Revenue Earned through June 30, 2011	Three months ended June 30, 2011	Three months ended June 30, 2010
HYDRA	$ 24,908	$ 10,963	$ 411	$ 121
LIPA I and II	40,141	39,710	1,309	782
DOE-FCL	7,898	6,785	232	571
NAVSEA Motor Study	6,511	6,492		107
Total	$ 79,458	$ 63,950	$ 1,952	$ 1,581

These significant projects represented 41% and 11% of the Grid business unit revenues for the three months ended June 30, 2011 and 2010.

Project HYDRA is a contract with Consolidated Edison, Inc. which is being partially funded by the U.S. Department of Homeland Security (DHS). DHS is expected to invest up to a total of $24.9 million in the development of a new high temperature superconductor power grid technology called FaultBlocker cable systems. FaultBlocker cable systems are designed to utilize customized Amperium HTS wires, and ancillary controls to deliver more power through the grid while also being able to suppress power surges that can disrupt service. Of the total $24.9 million in funding expected from DHS, it has committed funding of $12.6 million to us as of June 30, 2011. On September 15, 2011, the DHS committed an additional $3.0 million in funding on Project HYDRA. Consolidated Edison and Southwire Company are subcontractors to us on this project.

LIPA I, completed in the first quarter of fiscal 2009, was a project to install an HTS power cable system at transmission voltage using our first generation HTS wire for the Long Island Power Authority. LIPA II is a project to install an HTS power cable utilizing our Amperium wire for the Long Island Power Authority. DOE-FCL is a project to develop and demonstrate a transmission voltage SuperLimiter fault current limiter (FCL). The NAVSEA Motor Study is a project designed to test the 36.5 MW superconductor motor developed for the U.S. Navy.

Based on the average Euro and renminbi exchange rates for the first quarter of fiscal 2011, revenues denominated in these foreign currencies translated into U.S. dollars were $0.3 million higher compared to the translation of these revenues using the average exchange rates of these currencies for the first quarter of fiscal 2010.

The following table sets forth customers who represented 10% or more of our total revenues for the three months ended June 30, 2011 and 2010:

	Three months ended June 30, 2011	Three months ended June 30, 2010

Department of Energy/NETL	17%	<10%
Doosan Heavy Industries & Construction Co Ltd.	15%	<10%
Shenyang Blower Works Group Wind Power Co.,Ltd.	13%	<10%
Sinovel Wind Co., Ltd	%	72%

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Cost of Revenues and Gross Margin

Cost of revenues decreased by 71% to $17.0 million for the three months ended June 30, 2011, compared to $58.2 million for the three months ended June 30, 2010. Gross margin was (87.2%) and 40.1% for the three months ended June 30, 2011 and 2010, respectively. The decrease in gross margin and cost of revenues in the three months ended June 30, 2011 as compared to the same period in fiscal 2010 was a result of lower sales due to the disruption in our relationship with Sinovel and unabsorbed fixed overhead due to idle capacity. This is expected to improve in the future quarters as the wind market in China recovers.

Based on the average Euro and renminbi exchange rates for the first quarter of fiscal 2011, cost of revenues denominated in these foreign currencies translated into U.S. dollars was $0.5 million higher compared to the translation of cost of revenues using the average exchange rates of these currencies for the first quarter of fiscal 2010.

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 June 30,	
	2011	**2010**
R&D expenses per unaudited condensed consolidated statements of operations	$ 8,136	$ 7,335
R&D expenditures reclassified as cost of revenues	4,040	3,369
R&D expenditures offset by cost-sharing funding	34	141
Aggregated R&D expenses	$ 12,210	$ 10,845

R&D expenses (exclusive of amounts classified as cost of revenues and amounts offset by cost-sharing funding) increased by 11% to $8.1 million for the three months ended June 30, 2011 from $7.3 million for the three months ended June 30, 2010. The increase in R&D expenses was driven primarily by labor, material and overhead spending to support new product development in our Wind business segment. The increase in R&D expenditures reclassified to costs of revenue was a result of increased efforts under license and development contracts for wind turbine designs at AMSC Windtec compared to the prior year. Aggregated R&D expenses, which include amounts classified as cost of revenues and amounts offset by cost-sharing funding, increased 13% to $12.2 million for the three months ended June 30, 2011, compared to $10.8 million for the three months ended June 30, 2010. The increases in fiscal 2010 were driven primarily by the net impact of the factors described above. Growth in R&D expenses is expected to moderate going forward as a result of the restructuring actions undertaken in fiscal 2011.

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

Selling, general, and administrative

SG&A expenses increased by 45% to $22.0 million in the three months ended June 30, 2011, from $15.2 in the three months ended June 30, 2010. The increases in SG&A expenses were due primarily to increases in legal fees associated with ongoing litigation as discussed in Part II, Item 1, Legal Proceedings, of this Quarterly Report on Form 10-Q and severance and stock compensation costs for our former Chief Executive Officer. Higher legal expenses are expected for the next several quarters as we expect to continue pursuing litigation against Sinovel.

Amortization of acquisition related intangibles

We recorded amortization expense related to our core technology and know-how, trade names and trademark intangible assets of $0.3 million and $0.4 million in the three months ended June 30, 2011 and 2010, respectively. These intangible assets are primarily as a result of our AMSC Windtec acquisition.

Operating (loss) income

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

	Three months ended June 30,	
	2011	**2010**
Wind	$ (24,370)	$ 31,339
Grid	(10,552)	(11,764)
Unallocated corporate expenses	(3,405)	(3,494)
Total	$ (38,327)	$ 16,081

Operating (loss) income for the Wind business unit decreased to an operating loss of $24.4 million in the three months ended June 30, 2011, from an operating income of $31.3 million in the three months ended June 30, 2010. The decrease in Wind business unit operating income was primarily due to the disruption in our relationship with Sinovel, as described above.

Operating loss for the Grid business unit decreased to $10.6 million in the three months ended June 30, 2011, compared to $11.8 million in the three months ended June 30, 2010. The decrease in Grid business unit operating loss was primarily due to lower operating expenses as a result of the reductions in force and reduced discretionary spending, partially offset by reduced DVAR revenues.

Unallocated corporate expenses also include stock-based compensation expense of $3.5 million and $3.5 million for the three months ended June 30, 2011 and 2010, respectively.

Interest income, net

Interest income, net, was $0.2 million in the three months ended June 30, 2011 and 2010. Due to recent economic conditions and the United States monetary policy intended to promote growth, the yields of our interest bearing assets are low as compared to prior periods.

Other income, net

Other income, net, was income of $0.6 million in the three months ended June 30, 2011 compared to income of $0.2 million for the three months ended June 30, 2010. The increase in other income, net primarily relates to an increase in foreign currency translation gains of $0.9 million, partially offset by an increase in losses on minority interest investments of $0.5 million.

Income Taxes

In the three months ended June 30, 2011, we recorded income tax expense of $0.2 million compared to $7.3 million in the three months ended June 30, 2010. Income tax expense decreased due to the pretax loss in the three months ended June 30, 2011 and a full valuation allowance against our deferred tax assets.

Non-GAAP Measures

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

We define non-GAAP net (loss) income as net (loss) income before amortization of acquisition-related intangibles, restructuring and impairments, stock-based compensation, other unusual charges and any tax effects related to these items.

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

	Three months ended June 30,	
	2011	**2010**
Net (loss) income	$ (37,679)	$ 9,170
Stock-based compensation	3,466	3,499
Severance costs	2,066	
Losses on purchase commitments	1,071	
Amortization of acquisition-related intangibles	304	386
Tax effects		(83)
Non-GAAP net (loss) income	$ (30,772)	$ 12,972
Non-GAAP (loss) earnings per share	$ (0.61)	$ 0.28
Weighted average shares outstanding *	50,710	45,983

* Diluted shares are used for periods where net income is generated.

We incurred non-GAAP net loss of ($30.8) million, or ($0.61) per share, for the three months ended June 30, 2011, compared to a non-GAAP net income of $13.0 million, or $0.28 per diluted share, for the three months ended June 30, 2010. The decrease in non-GAAP net income was driven primarily by a decrease in net income, partially offset by severance costs and losses on purchase commitments.

Liquidity and Capital Resources

At June 30, 2011, we had cash, cash equivalents, marketable securities and restricted cash of $166.2 million, compared to $245.5 million at March 31, 2011, a decrease of $79.3 million. Our cash and cash equivalents, marketable securities and restricted cash are summarized as follows (in thousands):

	June 30, 2011	**March 31, 2011**
Cash and cash equivalents	$ 130,885	$ 123,783
Marketable securities	25,894	116,126
Restricted cash	9,373	5,566
Total cash, cash equivalents, marketable securities and restricted cash	$ 166,152	$ 245,475

For the three months ended June 30, 2011, net cash used in operating activities was $57.8 million compared to $18.5 million in the three months ended June 30, 2010. The increase in net cash used in operations is due primarily to a decrease in net income of $46.8 million, partially offset by a decrease in cash used for working capital of $8.1 million

For the three months ended June 30, 2011, net cash provided by investing activities was $59.8 million compared to net cash used in investing activities of less than $0.1 million in the three months ended June 30, 2010. The increase in net cash provided by investing activities for the three months ended June 30, 2011 was driven primarily by an increase in net maturities and sales of marketable securities of $81.7 million and a decrease in capital expenditures of $3.7 million, partially offset by the $20.6 million advance payment to The Switch, an increase in restricted cash of $4.0 million and an increase in purchased minority investments of $1.8 million.

For the three months ended June 30, 2011, net cash provided by financing activities was $4.4 million compared to $0.6 million in the three months ended June 30, 2010. The increase in net cash provided by financing activities is primarily due to net borrowings on lines credit of $4.6 million, partially offset by payments in lieu of issuance of common stock for payroll taxes of $0.3 in the three months ended June 30, 2011.

As of June 30, 2011, we had nine performance bonds on behalf of AMSC Windtec and our wholly-owned Chinese subsidiary, Suzhou AMSC Superconductor Co. Ltd (AMSC China), in support of customer contracts to guarantee supply of core components and software. The total value of the outstanding performance bonds is $2.3 million with various expiration dates through March 2014. In the event that the payment is made in accordance with the requirements of any of these performance bonds, we would record the payment as an offset to revenue.

At June 30, 2011 and March 31, 2011, we had $6.5 million and $5.6 million, respectively, of restricted cash included in current assets. At June 30, 2011, we had $2.9 million of restricted cash included in long term assets with various expiration dates through March 2014. These amounts included in restricted cash represent deposits to secure letters of credit for various supply contracts. These deposits are held in an interest bearing account. We had an additional $2.5 million in unsecured letters of credit, at June 30, 2011 and March 31, 2011, also in support of various supply contracts.

We had unused, unsecured lines of credit consisting of RMB 114.8 million (approximately $17.8 million) in China and 1.6 million (approximately $2.3 million) in Austria as of June 30, 2011. In July 2011, the Bank of China informed us that our unsecured credit line of approximately RMB 100.0 million (approximately $15.5 million), which expired in August 2011, would not be renewed. As of June 30, 2011, we had net borrowings on lines of credit outstanding of $4.6 million.

At June 30, 2011, we had cash, cash equivalents, marketable securities and restricted cash of $166.2 million. Our business plan anticipates a substantial decline in revenues and a substantial use of cash from operations in our fiscal year ending March 31, 2012, particularly in light of the difficult and uncertain current economic environment, the significant restructuring actions undertaken and the uncertainty surrounding Sinovel and certain of our other customers in China. Our plan includes a significant restructuring undertaken in August 2011, resulting in the elimination of approximately 150 positions worldwide. Since April 1, 2011, we have eliminated approximately 30% of our workforce and we expect to save approximately $30 million annually as a result of these reductions. Additional actions include further monitoring of our operating results against expectations and, if required, further reducing operating costs and capital spending if events warrant in order to enhance liquidity. Due to the disruption in our relationship with Sinovel, we will need to raise additional capital in order to complete the planned acquisition of The Switch in order to leave sufficient cash to fund our working capital, capital expenditures and other cash requirements. We may seek this financing through public or private equity offerings, debt financings, or other financing alternatives, however, there can be no assurance that financing will be available on acceptable terms or at all. If we fail to raise sufficient additional funds and terminate the purchase agreement for the acquisition of The Switch, we will likely forfeit the $20.6 million cash advance payment we paid to the shareholders of The Switch on June 29, 2011. In the event that we do not receive any additional payments from Sinovel and we neither complete the planned acquisition of The Switch, nor raise additional capital, we believe that our available cash, together with additional reductions in operating costs and capital expenditures as necessary will be sufficient to fund our operations, capital expenditures and other cash requirements through at least March 31 2012. Our long-term liquidity is dependent on our ability to profitably grow our revenues or raise additional capital as required.

Between April 6, 2011 and April 29, 2011, six putative securities class action complaints were filed against us and two of our officers in the United States District Court for the District of Massachusetts. On May 12, 2011, an additional complaint was filed against us, our officers and directors, and the underwriters who participated in our November 12, 2010 securities offering. On June 7, 2011, the United States District Court for the District of Massachusetts consolidated these actions under the caption *Lenartz v. American Superconductor Corporation, et al.* Docket No. 1:11-cv-10582-WGY. On June 16, 2011, the court appointed the law firm Robbins Geller Rudman & Dowd LLP as Lead Counsel and the Plumbers and Pipefitters National Pension Fund as Lead Plaintiff. On August 31, 2011, the Lead Plaintiff filed a consolidated amended complaint against us, our officers and directors, and the underwriters who participated in our November 12, 2010 securities offering, asserting claims under sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, as well as under sections 11, 12(a)(2) and 15 of the Securities Act of 1933. The complaint alleges that during the relevant class period, we and our officers omitted to state material facts and made materially false and misleading statements relating to, among other things, our projected and recognized revenues and earnings, as well as our relationship with Sinovel Wind Group Co., Ltd. that artificially inflated the value of our stock price. The complaint further alleges that our November 12, 2010 securities offering contained untrue statements of material facts and omitted to state material facts required to be stated therein. The plaintiffs seek unspecified damages, rescindment of our November 12, 2010 securities offering, and an award of costs and expenses, including attorney s fees.

On April 27, 2011, a putative shareholder derivative complaint was filed against us (as a nominal defendant) and each of our current directors in Superior Court for the Commonwealth of Massachusetts, Worcester County. The case is captioned *Segel v. Yurek, et al.*, Docket No. 11-0787. Between May 4, 2011 and June 17, 2011, four additional putative shareholder derivative complaints were filed in the United States District Court for the District of Massachusetts against us and certain of our directors and officers. The cases are captioned *Weakley v. Yurek, et al.*, Docket No. 1:11-cv-10784; *Marlborough Family*

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Revocable Trust v. Yurek, et al., Docket No. 1:11-cv-10825; *Connors v. Yurek, et al.*, Docket No. 1:11-cv-10910; and *Hurd v. Yurek, et al.*, Docket No. 1:11-cv-11102. On June 1, 2011, the plaintiff in *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 June 3, 2011. The case is now captioned *Marlborough Family Revocable Trust v. Yurek, et al.*, Docket No. 11-1961. The Superior Court in Worcester County granted the plaintiff s motion to transfer in *Segel v. Yurek et al.* to the Superior Court for the Commonwealth of Massachusetts, Middlesex County on June 23, 2011, and that matter is now captioned *Segel v. Yurek et al.*, Docket No. 11-2269. On July 5, 2011, the *Weakley*, *Connors* and *Hurd* actions were consolidated in United States District Court for the District of Massachusetts. That matter is now captioned *In re American Superconductor Corporation Derivative Litigation*, Docket No. 1:11-cv-10784. On June 1, 2011, the plaintiff in *Marlborough Family Revocable Trust v. Yurek, et al.* moved to voluntarily dismiss its complaint and, on June 3, 2011, refiled its complaint in Superior Court for the Commonwealth of Massachusetts, Middlesex County. The Superior Court in Worcester County granted the plaintiff s motion to transfer in *Segel v. Yurek et al.* to the Superior Court for the Commonwealth of Massachusetts, Middlesex County on June 23, 2011. On September 7, 2011, the *Marlborough* and *Segel* actions were consolidated in Superior Court for the Commonwealth of Massachusetts, Middlesex County. The case is now captioned *Marlborough Family Revocable Trust v. Yurek, et al.*, Docket No. 11-1961. The allegations of the derivative complaints mirror the allegations made in the putative class action complaints described above. The plaintiffs purport to assert claims against the director defendants for breach of fiduciary duty, abuse of control, gross mismanagement and corporate waste. The plaintiffs seek unspecified damages on behalf of us, as well as an award of costs and expenses, including attorney s fees.

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

On September 13, 2011, we commenced a series of legal actions in China against Sinovel Wind Group Co. Ltd. (Sinovel). Our Chinese subsidiary, Suzhou AMSC Superconductor Co. Ltd. (AMSC China), filed a claim for arbitration with the Beijing Arbitration Commission in accordance with the terms of our supply contracts with Sinovel. 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 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 (including interest) and monetary damages 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.

We also submitted a civil action application to the Beijing No. 1 Intermediate People s Court against Sinovel for software copyright infringement. 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 AMSC Windtec GmbH subsidiary was arrested in Austria and is currently awaiting trial on charges of economic espionage and fraudulent manipulation of data. 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 for our economic losses and reimbursement of all costs and reasonable expenses. The court must accept the application in order for the case to proceed, and there can be no assurance that the court will do so.

We submitted a civil action application to the Beijing Higher People s Court against Sinovel and certain of its employees for trade secret infringement. 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 for the trade secret infringement as well as reimbursement of all costs and reasonable expenses. The court must accept the application in order for the case to proceed, and there can be no assurance that the court will do so.

On September 16, 2011, AMSC China 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., a wind farm operator that has purchased Sinovel wind turbines containing Goutong power converter products. 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 for our economic losses (with respect to Guotong only) and reimbursement of all costs and reasonable expenses.

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, the Company has 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 October 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements,* pertaining to the accounting for revenue arrangements with multiple deliverables. Specifically, the new standard requires an entity to allocate consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. In the absence of the vendor-specific objective evidence or third-party evidence of the selling prices, consideration must be allocated to the deliverables based on management s best estimate of the selling prices. In addition, the new standard eliminates the use of the residual method of allocation. The new accounting standard supersedes the prior multiple element revenue arrangement accounting rules that were previously used by us. We adopted this new accounting standard on April 1, 2010 using the prospective method and the adoption did not have a material impact on our consolidated financial statements.

In January 2010, we adopted Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This standard amends the disclosure guidance with respect to fair value measurements for both interim and annual reporting periods. Specifically, this standard requires new disclosures for significant transfers of assets or liabilities between Level 1 and Level 2 in the fair value hierarchy; separate disclosures for purchases, sales, issuance and settlements of Level 3 fair value items on a gross, rather than net basis; and more robust disclosure of the valuation techniques and inputs used to measure Level 2 and Level 3 assets and liabilities. We have included these new disclosures, as applicable, in Note 3, Marketable Securities and Fair Value Disclosures, of our consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-29, *Business Combinations (Topic 805), Disclosure of Supplementary Pro forma Information for Business Combinations a consensus of the FASB Emerging Issues Task Force (ASC 2010-29).* This amendment clarifies the periods for which pro forma financial information is presented. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. ASU 2010-29 is effective prospectively for business combinations that occur on or after the beginning of the first annual reporting period beginning after December 15, 2010. We do not expect the adoption of ASU 2011-04 to have a material impact on our consolidated results of operations, financial condition, or cash flows.

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In June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. ASU 2011-05 is effective for fiscal years and interim periods beginning after December 15, 2011. We do not expect the adoption of ASU 2011-04 to have a material impact on our consolidated results of operations, financial condition, or cash flows.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Primary market risk

Our exposure to market risk through financial instruments, such as investments in marketable securities, is limited to interest rate risk and is not material. 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 Windtec, 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 Windtec and AMSC China, are translated into U.S. dollars at the exchange rate in effect at the balance sheet date and income and expense items are translated at average rates for the period. Cumulative translation adjustments are excluded from net income (loss) and shown as a separate component of stockholders equity.

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

Foreign currency transaction gains included in net (loss) income were $1.2 million and $0.3 million for the three months ended June 30, 2011 and 2010, respectively.

ITEM 4. CONTROLS AND PROCEDURES

Overview

Our management previously identified material weaknesses in internal control over financial reporting related to revenues and accounts receivable balances as fees were not fixed or determinable or collectability was not reasonably assured at the time revenue was recognized, which is described in our Annual Report on Form 10-K for the year ended March 31, 2011. During fiscal 2011 through the date of this filing, management has been focused on remediating these material weaknesses. The remediation process is ongoing but it is not yet complete. There was no change in internal control over financial reporting during the quarter ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. The following discussion sets forth a summary of management s evaluation of our disclosure controls and procedures as of June 30, 2011.

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 June 30, 2011. 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, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of June 30, 2011 because of the previously identified material weaknesses in internal control over financial reporting discussed below.

Notwithstanding the material weaknesses described below, management believes that the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States (GAAP).

This section of Item 4, Controls and Procedures, should be read in conjunction with Item 9A. Controls and Procedures, included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2011.

Material Weaknesses

As of June 30, 2011, the unremediated material weaknesses were as follows:

- we did not maintain adequately designed controls to ensure accurate recognition of revenue in accordance with GAAP. Specifically, controls were not effective to ensure that deviations from contractually established payment terms were identified, communicated and authorized;
- we did not maintain adequate controls to ensure proper monitoring and evaluation of customer creditworthiness, including the collectability of amounts due from customers and appropriate revenue recognition;
- we did not maintain a sufficient complement of personnel involved with business in our foreign locations with the appropriate level of knowledge, experience and training in the application of GAAP to ensure revenue transactions were appropriately reflected in the financial statements based on the terms and conditions of the sales contracts; and
- we did not establish and maintain, procedures to ensure proper oversight and review, by senior management, of customer relationships to ensure appropriate communication of relevant considerations to determine accounting judgments with respect to revenue recognition.

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Remediation of Material Weaknesses

We are in the process of remediating the above material weaknesses through the following initiatives:

- establishing formal, written policies and procedures governing the customer credit process;
- improving procedures to ensure the proper review and documentation of customer creditworthiness;
- establishing a new worldwide revenue manager position in finance with GAAP experience to ensure accuracy of revenue recognition;
- improving procedures to ensure the proper communication, approval and accounting review of deviations from sales contracts;
- providing additional and on-going training to product managers and others involved in negotiating contractual arrangements and accounting for revenue transactions, in order to heighten awareness of revenue recognition concepts under GAAP; and
- improving the internal communication process for senior management. During monthly operations reviews time will be devoted to senior management review of pending operational and accounting issues for the current quarter.

Management is committed to a strong internal control environment and believes that, when fully implemented and tested, the measures described above will improve our internal control over financial reporting. We will continue to assess the effectiveness of our remediation efforts in connection with our future assessments of the effectiveness of internal control over financial reporting.

Changes in Internal Control over Financial Reporting

Except as discussed above, there were no changes in our internal control over financial reporting during the quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Between April 6, 2011 and April 29, 2011, six putative securities class action complaints were filed against us and two of our officers in the United States District Court for the District of Massachusetts. On May 12, 2011, an additional complaint was filed against us, our officers and directors, and the underwriters who participated in our November 12, 2010 securities offering. On June 7, 2011, the United States District Court for the District of Massachusetts consolidated these actions under the caption *Lenartz v. American Superconductor Corporation, et al.* Docket No. 1:11-cv-10582-WGY. On June 16, 2011, the court appointed the law firm Robbins Geller Rudman & Dowd LLP as Lead Counsel and the Plumbers and Pipefitters National Pension Fund as Lead Plaintiff. On August 31, 2011, the Lead Plaintiff filed a consolidated amended complaint against us, our officers and directors, and the underwriters who participated in our November 12, 2010 securities offering, asserting claims under sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, as well as under sections 11, 12(a)(2) and 15 of the Securities Act of 1933. The complaint alleges that during the relevant class period, we and our officers omitted to state material facts and made materially false and misleading statements relating to, among other things, our projected and recognized revenues and earnings, as well as our relationship with Sinovel Wind Group Co., Ltd. that artificially inflated the value of our stock price. The complaint further alleges that our November 12, 2010 securities offering contained untrue statements of material facts and omitted to state material facts required to be stated therein. The plaintiffs seek unspecified damages, rescindment of our November 12, 2010 securities offering, and an award of costs and expenses, including attorney s fees.

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

On September 13, 2011, we commenced a series of legal actions in China against Sinovel Wind Group Co. Ltd. (Sinovel). Our Chinese subsidiary, Suzhou AMSC Superconductor Co. Ltd. (AMSC China), filed a claim for arbitration with the Beijing Arbitration Commission in accordance with the terms of our supply contracts with Sinovel. 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 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 (including interest) and monetary damages 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.

We also submitted a civil action application to the Beijing No. 1 Intermediate People s Court against Sinovel for software copyright infringement. 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 AMSC Windtec GmbH subsidiary was arrested in Austria and is currently awaiting trial on charges of economic espionage and fraudulent manipulation of data. 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 for our economic losses and reimbursement of all costs and reasonable expenses. The court must accept the application in order for the case to proceed, and there can be no assurance that the court will do so.

We submitted a civil action application to the Beijing Higher People s Court against Sinovel and certain of its employees for trade secret infringement. 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 for the trade secret infringement as well as reimbursement of all costs and reasonable expenses. The court must accept the application in order for the case to proceed, and there can be no assurance that the court will do so.

On September 16, 2011, AMSC China 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., a wind farm operator that has purchased Sinovel wind turbines containing Goutong power converter products. 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 for our economic losses (with respect to Guotong only) and reimbursement of all costs and reasonable expenses.

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 1A. Risk Factors in our Annual Report on Form 10-K for the year ended March 31, 2011, which could materially affect our business, financial condition or future results. To the best of our knowledge, as of the date of this report there has been no material change in any risk factors described in our Annual Report on Form 10-K.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In May 2011, in connection with the vesting of certain restricted stock awards issued to certain executive officers of the Company, these employees paid withholding taxes due by returning 23,861 shares valued at $0.3 million. The

Company has recorded these shares as treasury stock as of June 30, 2011.

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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: September 23, 2011	**By: /s/ David A. Henry** David A. Henry Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
10.1	Retirement and Services Agreement, dated as of May 23, 2011, between the Registrant and Gregory J. Yurek (1)
10.2	Amended and Restated Executive Severance Agreement, dated as of May 24, 2011, between the Registrant and Daniel P. McGahn (2)
10.3	Letter Agreement, dated as of June 7, 2011, between the Registrant and The Switch Engineering Oy (3)
10.4	Amendment Agreement, dated June 29, 2011, by and among the Registrant and the shareholders of The Switch Engineering Oy (4)
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.LAB	XBRL Taxonomy Label Linkbase Document.**
101.PRE	XBRL Taxonomy Presentation Linkbase Document.**
101.DEF	XBRL Taxonomy Definition Linkbase Document.**

(1) Incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed with the Commission on May 24, 2011 (Commission file No. 000-19672).

(2) Incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed with the Commission on May 24, 2011 (Commission file No. 000-19672).

(3)

Incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed with the Commission on June 13, 2011 (Commission file No. 000-19672).

(4) Incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed with the Commission on June 30, 2011 (Commission file No. 000-19672).

** submitted electronically herewith

Attached as Exhibits 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Statements of Income for the three months ended June 30, 2011 and 2010, (ii) Condensed Consolidated Balance Sheets as of June 30, 2011 and March 31, 2011, (iii) Condensed Consolidated Statements of Comprehensive (Loss) Income for the three months ended June 30, 2011 and 2010, (iv) Condensed Consolidated Statements of Cash Flows for the three months ended June 30, 2011 and 2010, and (v) Notes to Condensed Consolidated Financial Statements.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.