

FORM 10-Q

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| x | <p>Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
 For the quarterly period ended: June 30, 2007</p> |
| .. | <p>Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
 Commission File Number: 0-19672</p> |

American Superconductor Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

Two Technology Drive

Westborough, Massachusetts 01581

(Address of principal executive offices, including zip code)

(508) 836-4200

(Registrant's telephone number, including area code)

04-2959321
(I.R.S. Employer

Identification No.)

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

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value \$0.01 per share
Class

40,786,559
Outstanding as of August 6, 2007

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

INDEX

	Page No.
Part I Financial Information	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets June 30, 2007 (unaudited) and March 31, 2007</u>	3
<u>Unaudited Condensed Consolidated Statements of Operations for the three months ended June 30, 2007 and 2006</u>	4
<u>Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three months ended June 30, 2007 and 2006</u>	5
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended June 30, 2007 and 2006</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7-16
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17-33
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	33
<u>Item 4. Controls and Procedures</u>	33-34
Part II Other Information	
<u>Item 1. Legal Proceedings</u>	35
<u>Item 1A. Risk Factors</u>	35-43
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
<u>Item 6. Exhibits</u>	43
<u>Signatures</u>	44
<u>Exhibit Index</u>	45

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2007 (Unaudited) (In thousands)	March 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,142	\$ 15,925
Marketable securities	15,343	19,399
Accounts receivable, net	21,149	18,053
Inventory	6,629	6,853
Prepaid expenses and other current assets	2,552	1,505
Deferred tax assets	311	514
Total current assets	61,126	62,249
Property, plant and equipment, net	50,537	49,928
Assets held for sale	1,563	2,171
Goodwill	7,935	5,126
Other intangibles, net	14,166	12,849
Other assets	93	110
Total assets	\$ 135,420	\$ 132,433
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 20,824	\$ 23,532
Deferred revenue and customer deposits	7,681	3,775
Total current liabilities	28,505	27,307
Non-current liabilities:		
Deferred revenue and customer deposits	814	867
Deferred tax liabilities	2,422	2,518
Other non-current liabilities	94	120
Total liabilities	31,835	30,812
Commitments and contingencies		
Stockholders' equity:		
Common stock	359	350
Additional paid-in capital	497,666	486,194
Deferred contract costs - warrant	(12)	(13)
Accumulated other comprehensive income	280	145
Accumulated deficit	(394,708)	(385,055)
Total stockholders' equity	103,585	101,621
Total liabilities and stockholders' equity	\$ 135,420	\$ 132,433

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

Table of Contents**AMERICAN SUPERCONDUCTOR CORPORATION****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three months ended June 30,	
	2007	2006
	(In thousands, except per share data)	
Revenues	\$ 19,769	\$ 14,046
Costs and expenses:		
Costs of revenue	16,187	13,925
Research and development	4,214	4,063
Selling, general and administrative	6,118	3,496
Amortization of acquisition related intangibles	1,162	
Restructuring and impairments	818	
Total costs and expenses	28,499	21,484
Operating loss	(8,730)	(7,438)
Interest income	346	678
Other income (expense), net	(1,014)	37
Loss before income tax provision	(9,398)	(6,723)
Income tax expense	255	
Net loss	\$ (9,653)	\$ (6,723)
Net loss per common share		
Basic and Diluted	\$ (0.27)	\$ (0.20)
Weighted average number of common shares outstanding		
Basic and Diluted	35,268	32,805

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

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	For the three months ended June 30,	
	2007	2006
	(In thousands)	
Net loss	\$ (9,653)	\$ (6,723)
Other comprehensive income		
Foreign currency translation	126	(1)
Unrealized gains on investments	9	44
Other comprehensive income	135	43
Comprehensive loss	\$ (9,518)	\$ (6,680)

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

Table of Contents**AMERICAN SUPERCONDUCTOR CORPORATION****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the three months ended June 30,	
	2007	2006
	(In thousands)	
Cash flows from operating activities:		
Net loss	\$ (9,653)	\$ (6,723)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	2,310	1,068
Stock-based compensation expense	1,077	780
Stock-based compensation expense - non-employee	83	33
Impairment charges on long-lived assets	607	
Inventory write-down charges	933	
Re-valuation of warrant	986	(35)
Change in deferred income taxes	85	
Other non-cash items	8	20
Changes in operating asset and liability accounts, excluding the effect of acquisition:		
Accounts receivable	(2,694)	(6,973)
Inventory	(179)	1,190
Prepaid expenses and other current assets	(352)	(69)
Accounts payable and accrued expenses	(4,722)	1,207
Deferred revenue	3,247	1,661
Net cash used in operating activities	(8,264)	(7,841)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(1,479)	(2,781)
Proceeds from the sale of property, plant and equipment		47
Purchase of marketable securities	(11,977)	(17,866)
Proceeds from the maturity of marketable securities	16,042	6,089
Increase in restricted cash	(674)	
Acquisition costs, net of cash acquired in acquisition of Power Quality Systems, Inc.	(102)	
Purchase of intangible assets	(329)	(239)
Decrease in other assets	17	3
Net cash provided by (used in) investing activities	1,498	(14,747)
Cash flows from financing activities:		
Proceeds from issuances of common stock, net	5,971	491
Net cash provided by financing activities	5,971	491
Effect of exchange rate changes on cash and cash equivalents	12	
Net decrease in cash and cash equivalents	(783)	(22,097)
Cash and cash equivalents at beginning of period	15,925	35,171
Cash and cash equivalents at end of period	\$ 15,142	\$ 13,074

Supplemental schedule of cash flow information:

Issuance of common stock in connection with the purchase of Power Quality Systems, Inc.	\$ 4,349
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The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

Table of Contents**AMERICAN SUPERCONDUCTOR CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****1. Description of the Business and Basis of Presentation**

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

These unaudited condensed consolidated financial statements of the Company have been prepared in accordance with the Securities and Exchange Commission's (SEC) instructions to Form 10-Q. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to those instructions. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. The unaudited condensed consolidated financial statements, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim periods ended June 30, 2007 and 2006 and the financial position at June 30, 2007. The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation.

The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the fiscal year. The Company suggests that these interim condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements for the fiscal year ended March 31, 2007 which are contained in the Company's Annual Report on Form 10-K filed with the SEC on June 14, 2007.

2. Stock-Based Compensation

The Company accounts for its stock-based compensation under the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payments. The following table summarizes stock-based compensation expense under SFAS 123(R) by financial statement line for the three months ended June 30, 2007 and June 30, 2006, respectively (in thousands):

	Three months ended June 30,	
	2007	2006
Costs of revenue	\$ 97	\$ 72
Research and development	254	226
Selling, general and administrative	726	482
Total stock-based compensation expense	\$ 1,077	\$ 780

Table of Contents**AMERICAN SUPERCONDUCTOR CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The total unrecognized compensation cost for unvested stock-based compensation awards outstanding, net of forfeitures, was \$8.0 million at June 30, 2007. This expense will be recognized over a weighted average expense period of 1.7 years.

The assumptions used in the Black-Scholes valuation model for stock options granted during the three months ended June 30, 2007 and 2006 are as follows:

	Three months ended June 30,	
	2007	2006
Expected volatility	57.4%	53.3%
Risk-free interest rate	4.9%	5.1%
Expected life (years)	5.3	5.8
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 five-year U.S. Treasury rates. The Company has applied an annual forfeiture rate of 13.79% as of June 30, 2007. This analysis is re-evaluated periodically and the forfeiture rate is adjusted as necessary.

On August 3, 2007, the Company's stockholders approved two new stock plans; the 2007 Stock Incentive Plan (3,000,000 shares) and the 2007 Director Stock Plan (300,000 shares).

3. Computation of Net Loss per Common Share

Basic earnings per share (EPS) is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing the net earnings (loss) available to common stockholders 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 and the exercise of stock options and warrants. For the three months ended June 30, 2007 and 2006, common equivalent shares of 4.6 million were not included in the calculation of diluted EPS as they were considered anti-dilutive.

Table of Contents

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table reconciles the numerators and denominators of the earnings per share calculation for the three months ended June 30, 2007 and 2006 (in thousands, except per share data):

	Three months ended June 30,	
	2007	2006
Numerator:		
Net loss	\$ (9,653)	\$ (6,723)
Denominator:		
Weighted-average shares of common stock outstanding	35,593	32,968
Weighted-average shares subject to repurchase	(325)	(163)

Shares used in per-share calculation basic and diluted