AMERICAN SUPERCONDUCTOR CORP /DE/
Form S-3/A
July 19, 2007
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As filed with the Securities and Exchange Commission on July 19, 2007

Registration No. 333-143903

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-3

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

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 Number)**

Two Technology Drive

Westborough, Massachusetts 01581-1727

(508) 836-4200

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Gregory J. Yurek

Chairman and Chief Executive Officer

American Superconductor Corporation

Two Technology Drive

Westborough, Massachusetts 01581-1727

(508) 836-4200

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

Patrick J. Rondeau, Esq.

Peter N. Handrinos, Esq.

Wilmer Cutler Pickering Hale and Dorr LLP

60 State Street

Boston, Massachusetts 02109

(617) 526-6000

Patrick O Brien, Esq.
Ropes & Gray LLP
One International Place
Boston, Massachusetts 02110
(617) 951-7000

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date hereof.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨_____

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨_____

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ¨

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

Issued July 19, 2007

4,700,000 Shares

COMMON STOCK

American Superconductor Corporation is offering 4,700,000 shares of its common stock in the offering. Our common stock is listed on the NASDAQ Global Market under the symbol AMSC. On July 6, 2007, the last sale price of our common stock as reported on the NASDAQ Global Market was $22.26.

Investing in our common stock involves risks. See Risk Factors beginning on page 7.

PRICE $ A SHARE

	Price to Public	***Underwriting Discounts and Commissions***	***Proceeds, Before Expenses, To Us***
Per Share	*$*	*$*	*$*
Total	*$*	*$*	*$*

We have granted the underwriters the right to purchase up to an additional 705,000 shares solely to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares to purchasers on , 2007.

Morgan Stanley

Jefferies & Company **Needham & Company, LLC**

, 2007

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You should rely only on the information contained in this prospectus and the documents incorporated by reference in this prospectus or to which we have referred you. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus does not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this prospectus in any jurisdiction to or from any person to whom or from whom it is unlawful to make such offer or solicitation of an offer in such jurisdiction. You should not assume that the information contained in this prospectus or any document incorporated by reference is accurate as of any date other than the date on the front cover of the applicable document. Neither the delivery of this prospectus nor any distribution of securities pursuant to this prospectus shall, under any circumstances, create any implication that there has been no change in the information set forth or incorporated by reference into this prospectus or in our affairs since the date of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

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PROSPECTUS SUMMARY

The following summary highlights the key information contained elsewhere in this prospectus. It does not contain all the information that may be important to you. You should read this entire prospectus carefully, especially the discussion of Risk Factors and our selected consolidated financial statements and related notes, before deciding to invest in shares of our common stock. In this prospectus, when we use phrases such as we, our and us, we are referring to American Superconductor Corporation and its subsidiaries as a whole, except where it is clear from the context that any of these terms refers only to American Superconductor Corporation. Unless otherwise indicated, the information in this prospectus assumes the underwriters do not exercise their over-allotment option.

AMERICAN SUPERCONDUCTOR CORPORATION

Company Overview

We are a leading energy technologies company, offering an array of solutions based on two proprietary technologies: programmable power electronic converters and high temperature superconductor, or HTS, wires. Our 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 our power electronic converters differentiates them from most competitive offerings. Our HTS wires carry 150 times the electrical current of comparably sized copper wire. The two primary markets we serve are the wind energy market and the power transmission and distribution or power grid market.

The demand for clean and renewable sources of electricity, such as wind energy, and the demand for modernized power grid infrastructure are being driven globally by a variety of factors. These factors include increasing electricity usage, power grid capacity constraints, fossil fuel price volatility and harmful levels of pollution and greenhouse gases. In addition, our growing digital-based economy demands better power reliability and quality. Concerns about these factors have led to increased spending by corporations and supportive government regulations and initiatives on local, state, national and global levels, including renewable portfolio standards, tax incentives and international treaties.

We conduct our operations through two business units:

AMSC Power Systems. AMSC Power Systems, or Power Systems, produces a broad range of products to increase electrical grid capacity and reliability; supplies electrical systems used in wind turbines; sells power electronic products that regulate wind farm voltage to enable their interconnection to the power grid; licenses proprietary wind energy system designs to manufacturers of such systems; and provides consulting services to the wind industry.

AMSC Superconductors. AMSC Superconductors, or Superconductors, focuses on the manufacturing of HTS wire and coils; the design and development of HTS products, such as power cables, fault current limiters and motors; and the management of large-scale HTS projects, such as HTS power cable system design, manufacturing and installation.

Our revenues for fiscal year 2006, which ended on March 31, 2007, were $52.2 million. Our total backlog of orders and contracts grew by more than 200 percent to approximately $80 million as of March 31, 2007 from $23.8 million in backlog as of March 31, 2006. We expect to recognize as revenue at least $58 million of the $80 million in backlog in the fiscal year ending March 31, 2008. Overall, with strong demand for our product and service portfolio, the recent completion of two acquisitions, near-record quarterly revenues in the fourth quarter of fiscal 2006,

and additional new orders and contracts since the end of fiscal 2006, we believe that we have set the stage for continued growth in fiscal 2007 and beyond.

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Market Opportunities

Our products and services address two substantial global demands:

- the demand for cleaner, renewable sources of electricity, such as wind power; and
- the demand for a modernized power grid infrastructure to alleviate capacity constraints and improve the reliability, security, stability and efficiency of electricity.

The market for wind-generated, zero-emission electricity has been growing dramatically for more than a decade. According to the Global Wind Energy Council, or GWEC, nearly 15,200 megawatts, or MW, of wind generation capacity was added worldwide in calendar 2006, increasing the global installed base by 26 percent to 74,223 MW. Furthermore, global wind power capacity is expected to more than double to 149,500 MW by 2010. At the end of fiscal 2006, we had product sales and orders to support more than 3,760 MW of wind generated electricity worldwide, an increase of approximately 175 percent from 1,360 MW at the end of fiscal 2005. We address the wind energy market by providing services and designing, developing, manufacturing and selling critical components.

Until the early part of this decade, transmission grid investment experienced a prolonged depression, caused by uncertainties with respect to the ownership of and return on transmission grid assets caused by potential changes in power grid regulations and policies. This period of underinvestment has resulted in an increasing number of grid disturbances, local electric power outages and large-scale power blackouts. We currently address the power grid infrastructure opportunity by providing components and products designed to increase the power grid s capacity, reliability, security, stability and efficiency.

Competitive Strengths

Our competitive strengths position us well to execute on our growth plans in the markets we serve.

Technology Leadership and Engineering Expertise. We are a technology leader in the development of power electronics and HTS wire-based solutions for the wind energy and power grid markets. As of March 31, 2007, we owned more than 370 patents and patent applications worldwide, and had rights through exclusive and non-exclusive licenses to more than 360 additional patents and patent applications. Our technology and manufacturing know-how, customer and product knowledge and patent portfolio provide us with a strong competitive position. We employ our 20 years of development expertise toward the design and commercialization of new products and solutions and toward the implementation of proprietary manufacturing processes.

Sophisticated, Flexible Product Design. Our products are highly flexible, and their sophisticated design allows for a high degree of customization. These products leverage our proprietary software and hardware combinations that enable us to configure our power electronics to efficiently and quickly meet the specific requirements of customers in a diverse range of markets. Furthermore, our proprietary HTS wire design and product engineering capabilities enable products with superior performance when compared to other market alternatives. Our wire design, for instance, allows us to tailor the lamination of our HTS wire to meet the electrical and mechanical performance requirements of widely varying end-use applications.

Highly Scalable, Low Cost Manufacturing Platform. Our proprietary manufacturing technique for 344 superconductors, which is our brand name for what is generically known as second generation (2G) HTS wire, is modular in nature, which we believe will allow us to readily expand manufacturing capacity at relatively low incremental cost. All of the equipment we are installing today for the 344 superconductors manufacturing line is designed with the capability to process either 4 cm or 10 cm wide strips, which will allow us to increase gross capacity by 2.5 times without significant additional capital expenditures when we migrate from 4 cm to 10 cm production. We believe our capacity

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expansion on this manufacturing line will eventually enable us to manufacture this wire at one-fifth the cost of our first generation (1G) HTS wire, which we no longer manufacture.

Close Consultative Relationships with Customers. We have built a team of skilled engineers with extensive experience in the design, structure and modeling of power transmission and distribution grids and in the operation of wind farms and industrial sites. We work closely with our customers to understand their needs and develop solutions to their unique operational challenges. By determining solutions, our team is able to identify applications for our technology. We are then able to customize and target our offerings to specific customers.

Highly Experienced Management and Technical Team. Senior management has over 200 years of cumulative experience developing, manufacturing, marketing and selling energy technologies. This team is composed of veterans of the electrical equipment, utility and wind power markets and is backed by our 263 employees worldwide as of March 31, 2007, 23 of whom held Ph.D.s in materials science, physics, metallurgy, or engineering.

Strategy

Our strategy is to drive revenue growth and enhance operating results by achieving a greater proliferation and acceptance of our products.

Target High-Growth Segments with Commercial Products. We target high-growth segments of the power and utility industry. Our Power Systems offerings are designed to meet the needs of the wind energy market, which is expected to grow by at least 19 percent annually through 2010, according to GWEC. Our HTS and grid-support products fill the needs of capacity-constrained transmission assets globally and address the demand for more reliable, secure and efficient transmission and distribution assets. After decades of decline, Edison Electric Institute, the association of U.S. shareholder-owned electric companies, expects investment in the transmission grid to increase from $5.8 billion in 2005 to $8.4 billion in 2009.

Pursue Overseas Markets. We are increasingly focusing our sales efforts on overseas markets and have been successful in targeting business in emerging economies, such as China and South Korea. We also have built significant sales momentum in countries where dynamic voltage standards for wind farms have been put in place, such as Australia, Canada, New Zealand and the United Kingdom. In fiscal 2006, which ended March 31, 2007, approximately 47 percent of our revenues came from sales outside the United States compared with 24 percent the prior fiscal year. In support of this expansion, we maintain field service and sales in Germany as well as operations in Austria. In the first half of fiscal 2006, we opened offices in China and Singapore to support our growing customer base in the Asia-Pacific region.

Anticipate Customer Needs in the Development of System-Level Solutions. We develop close working relationships with our customers that enable us to provide customized solutions and identify opportunities to employ our products. Our Network Solutions team collects and analyzes data regarding our customers systems from entire power grids to manufacturing operations to wind farms. For example, our Network Solutions team carries out dynamic simulations for customers on the effects power grid disturbances may have on grid reliability under all operating conditions. They then can quantify how the incorporation of volt-amp-reactive, or VAR, solutions, such as static VAR compensators, or SVCs, and dynamic VAR, or D-VAR, systems, and advanced technologies, such as HTS cables and fault current limiters, or FCLs, can improve power grid operations. The group performs similar analyses to determine optimum power quality solutions for industrial manufacturing sites and wind farms.

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Strengthen our Technology Leadership while Lowering Cost. We work continuously to strengthen our leadership position in terms of reliability, effectiveness, cost and total product offering. We interact with our customers and suppliers not only to improve the performance and efficiency of our Power Systems solutions, but also to reduce material and manufacturing costs. In addition, we maintain a vigorous research and development effort that continues to yield increases in electrical and mechanical performance of our 344 superconductors, which already perform at levels that are comparable to or better than our 1G HTS wire. We continue to achieve productivity enhancements in our manufacturing of 344 superconductors, which we believe will enable us to manufacture this wire at one-fifth the cost of our 1G HTS wire.

Pursue Targeted Strategic Acquisitions and Alliances. We will continue to pursue strategic business relationships and acquisitions that complement our product portfolio and increase our rate of growth. We have built strategic alliances and close corporate relationships with many industry leaders including GE Energy, Nexans, Siemens, Southwire and Vestas to develop and commercialize our products and to bring them to market. We also have been successful in closing key acquisitions, including our recent acquisitions of Windtec and Power Quality Systems. The Windtec acquisition provides increased access to the growing wind market and complements sales of our existing D-VAR and PowerModule power electronics products in the wind market. Our recent Power Quality Systems acquisition enhances our reactive compensation product offerings for utility and industrial customers.

Corporate Information

We were incorporated in the State of Delaware in April 1987. Our principal executive offices are located at Two Technology Drive, Westborough, Massachusetts 01581 and our telephone number at that address is (508) 836-4200.

Our website is located at www.amsc.com. We have not incorporated by reference into this prospectus the information on our website and you should not consider it to be a part of this document. Our website address is included as an inactive textual reference only.

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THE OFFERING

Common stock we are offering	4,700,000 shares
Common stock to be outstanding after this offering	40,602,885 shares
Over-allotment option	705,000 shares
Net proceeds	We estimate that the net proceeds from this offering will be approximately $98 million, assuming a public offering price of $22.26 per share and after deducting estimated underwriting discounts and commissions and offering expenses payable by us.
Use of proceeds	We expect to use net proceeds from this offering to fund the expansion of our foreign operations, to expand our HTS wire manufacturing capacity and for working capital and other general corporate purposes. See Use of Proceeds.
Risk factors	You should read the Risk Factors section of this prospectus for a discussion of factors to consider carefully before deciding to purchase shares of our common stock.
NASDAQ Global Market symbol	AMSC

The number of shares of our common stock to be outstanding after this offering is based on the number of shares outstanding as of June 29, 2007, and excludes:

- options to purchase 4,009,489 shares of common stock outstanding as of June 29, 2007;
- 442,783 shares of common stock available for future issuance under our stock option plans as of June 29, 2007; and
- warrants to purchase 273,750 shares of common stock outstanding as of June 29, 2007.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The following table provides selected financial data for each of the three fiscal years in the period ended March 31, 2007. The financial data for each of the three fiscal years in the period ended March 31, 2007 have been derived from our audited consolidated financial statements, incorporated herein by reference to our Annual Report on Form 10-K for the year ended March 31, 2007. You should read this information in conjunction with our consolidated financial statements, including the related notes, which are incorporated by reference into this prospectus, and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

	Fiscal Year Ended March 31,		
	2007	2006	2005
	(In thousands, except per share amounts)		
Statement of Operations Data			
Total revenues	$ 52,183	$ 50,872	$ 58,283
Total costs and expenses	88,715	84,359	78,632
Net loss[(1)]	(34,675)	(30,876)	(19,660)
Net loss per common shares (basic and diluted)	(1.04)	(0.94)	(0.70)
Weighted average number of common shares outstanding (basic and diluted)	33,261	32,685	28,215

(1) Included in the net loss for the year ended March 31, 2007 was a $3,680,000 charge related to our adoption of SFAS 123(R) and a $667,000 charge for restructuring and long-lived asset impairments related to our decision to re-align our AMSC Wires and AMSC Supermachines business units into the newly formed AMSC Superconductors business unit. The net loss for the year ended March 31, 2006 included a $4,960,000 long-lived asset impairment charge related to our decision to complete the transition from 1G HTS wire to a lower cost 2G HTS wire manufacturing methodology.

The summary consolidated balance sheet data as of March 31, 2007 is presented on an actual basis and an as adjusted basis to reflect the sale of 4,700,000 shares of common stock offered by us in this offering at an assumed offering price of $22.26 per share, after deducting estimated underwriting discounts and commissions and offering expenses payable by us.

	As of March 31, 2007	
	Actual	As Adjusted
	(In thousands)	
Balance Sheet Data		
Cash and cash equivalents and marketable securities	$ 35,324	$ 133,337
Working capital	34,942	132,955
Total assets	132,433	230,446
Total liabilities	30,812	30,812
Stockholders equity	101,621	199,634

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RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors and the other information included or incorporated by reference into this prospectus before investing in our common stock. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. If any of these risks occur, our business could suffer, the market price of our common stock could decline and you could lose all or part of your investment in our common stock.

We have a history of operating losses, and we expect to incur losses in the future.

We have been focused on research and development activities through the fiscal year ended March 31, 2007. We have incurred net losses in each year since our inception. Our net loss was $34.7 million for the fiscal year ended March 31, 2007, $30.9 million for the fiscal year ended March 31, 2006 and $19.7 million for the fiscal year ended March 31, 2005. Our accumulated deficit as of March 31, 2007 was $385.1 million. We expect to continue to incur operating losses until at least the end of the fiscal year ending March 31, 2009, and we cannot be certain that we will ever achieve profitability.

We had cash, cash equivalents and marketable securities totaling $35.3 million at March 31, 2007. We believe our available cash, cash equivalents and marketable securities, together with the proceeds from this offering, will be sufficient to fund our working capital, capital expenditures and other cash requirements for the next several years. However, we may need additional funds if our performance deviates significantly from our current business plan, if there are significant changes in competitive or other market factors, or if unforeseen circumstances arise. Such funds may not be available, or may not be available under terms acceptable to us.

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.

Many of our superconductor products are in the early stages of commercialization, while others are still under development. There are a number of technological challenges that we must successfully address to complete our development and commercialization efforts for superconductor products. We also believe that several years of further development in the cable, fault current limiter and motor industries will be necessary before a substantial number of additional commercial applications for our HTS wire in these industries can be developed and proven. We will also need to improve the performance and reduce the cost of our HTS wire to expand the number of commercial applications for it. We may be unable to meet such technological challenges or to sufficiently improve the performance and reduce the costs of our HTS wire. Delays in development, as a result of technological challenges or other factors, may result in the introduction or commercial acceptance of our superconductor products later than anticipated.

The commercial uses of superconductor products are limited today, and a widespread commercial market for our products may not develop.

To date, there has been no widespread commercial use of HTS products. Even if the technological hurdles currently limiting commercial uses of HTS products are overcome, it is uncertain whether a robust commercial market for those new and unproven products will ever develop. To date, many projects to install HTS cables and products in power grids have been funded or subsidized by the governmental authorities. If this

funding is curtailed, grid operators may not continue to utilize HTS cables and products in their projects. It is possible that the market demands we currently anticipate for our HTS products will not develop and that they will never achieve widespread commercial acceptance.

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We have limited experience manufacturing our Power Systems products in commercial quantities, and failure to manufacture our Power Systems products in commercial quantities at acceptable cost and quality levels would impair our ability to meet customer delivery requirements.

To be financially successful, we will have to manufacture our Power Systems products in commercial quantities at acceptable costs while also preserving the necessary performance and quality levels. We cannot be certain that we will be successful in developing product designs and manufacturing processes that permit us to manufacture our Power Systems products in commercial quantities at acceptable costs while preserving the necessary performance and quality. In addition, we may incur significant unforeseen expenses in our product design and manufacturing efforts.

We have not manufactured our 344 superconductors in commercial quantities, and a failure to manufacture our 344 superconductors in commercial quantities at acceptable cost and quality levels would substantially limit our future revenue and profit potential.

We are developing commercial-scale manufacturing processes for our 344 superconductors, which, while very different from our 1G HTS wire manufacturing processes, are also extremely complex and challenging. We expect to have installed and qualified by December 31, 2007 the capacity to manufacture 720,000 meters of our 344 superconductors annually. However, in order to be able to offer our wire at pricing that we believe will be commercially competitive, we estimate that we will need to develop the capacity to manufacture nine million meters of our 344 superconductors annually. We believe it will cost between approximately $28 million and $35 million to purchase and install additional equipment to achieve this commercial scale manufacturing capability. We may not be able to manufacture satisfactory commercial quantities of 344 superconductors of consistent quality with an acceptable yield and cost. Failure to successfully scale up manufacturing of our 344 superconductors would result in a significant limitation of the broad market acceptance of our HTS products and of our future revenue and profit potential.

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 adversely affect our revenue and cash flow.

To date, we have limited experience marketing and selling our superconductor products and system-level solutions, and there are few people who have significant experience marketing or selling superconductor products and system-level solutions. Once our products and solutions are ready for widespread commercial use, we will have to develop a marketing and sales organization that will effectively demonstrate the advantages of our products over both more traditional products and competing superconductor products or other technologies. We may not be successful in our efforts to market this new technology, and we may not be able to establish an effective sales and distribution organization.

We may decide to enter into arrangements with third parties for the marketing or distribution of our products, including arrangements in which our products, such as HTS wire, are included as a component of a larger product, such as a power cable system or a motor. By entering into marketing and sales alliances, the financial benefits to us of commercializing our products are dependent on the efforts of others.

Our success in addressing the wind energy system market is dependent on the system manufacturers that license our system designs.

Because an important element of our strategy for addressing the wind energy system market involves the license of our system designs to manufacturers of wind energy systems, the financial benefits to us of our products for the wind energy market are dependent on the success of

these manufacturers in selling wind energy systems that incorporate our designs. We may not be able to enter into marketing or distribution arrangements with third parties on financially acceptable terms, and third parties may not be successful in selling our products or applications incorporating our products.

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Growth of the wind energy market depends largely on the availability and size of government subsidies and economic incentives.

At present, the cost of wind energy exceeds the cost of conventional power generation in many locations around the world. Various governments have used different policy initiatives to encourage or accelerate the development and adoption of wind energy and other renewable energy sources. Renewable energy policies are in place in the European Union, most notably Germany and Spain, certain countries in Asia, including China, Japan and South Korea, and many of the states in Australia and the United States. Examples of government sponsored financial incentives include capital cost rebates, feed-in tariffs, tax credits, net metering and other incentives to end-users, distributors, system integrators and manufacturers of wind energy products to promote the use of wind energy and to reduce dependency on other forms of energy. Governments may decide to reduce or eliminate these economic incentives for political, financial or other reasons. Reductions in, or eliminations of, government subsidies and economic incentives before the wind energy industry reaches a sufficient scale to be cost-effective in a non-subsidized marketplace could reduce demand for our products and adversely affect our business prospects and results of operations.

Many of our revenue opportunities are dependent upon subcontractors and other business collaborators.

Many of the revenue opportunities for our business involve projects, such as the installation of superconductor cables in power grids and electrical system hardware in wind energy systems, in which we collaborate with other companies, including suppliers of cryogenic systems, manufacturers of electric power cables and manufacturers of wind energy systems. In addition, a key element of our business strategy is the formation of business alliances with motor manufacturers and/or marine propulsion system integrators. As a result, most of our current and planned revenue-generating projects involve business collaborators on whose performance our revenue is dependent. If these business partners fail to deliver their products or perform their obligations on a timely basis or fail to generate sufficient demand for the systems they manufacture, our revenue from the project may be delayed or decreased and we may not be successful in selling our products.

We may not realize all of the sales expected from our backlog of orders and contracts.

At March 31, 2007, we had approximately $80 million of backlog of orders and contracts. There can be no assurances that the revenue we expect to generate from our backlog will be realized in the periods we expect to realize such revenue, or at all. In addition, the backlog of orders and contracts, if realized, may not result in profitable revenue. Backlog represents the value of contracts and purchase orders received, less the revenue recognized to date on those contracts and purchase orders. Our customers have the right under some circumstances and with some penalties or consequences to terminate, reduce or defer firm orders that we have in backlog. In addition, our government contracts are subject to the risks described below. If our customers terminate, reduce or defer firm orders, we may be protected from certain costs and losses, but our sales will nevertheless be adversely affected and we may not generate the revenue we expect. Although we strive to maintain ongoing relationships with our customers, there is an ongoing risk that orders may be cancelled or rescheduled due to fluctuations in our customers business needs or purchasing budgets.

Our contracts with the U.S. government are subject to audit, modification or termination by the U.S. government, and the continued funding of such contracts remains subject to annual congressional appropriation which, if not approved, could adversely affect our results of operations and financial condition.

As a company that contracts with the U.S. government, we are subject to financial audits and other reviews by the U.S. government of our costs and performance, accounting and general business practices relating to these contracts. Based on the results of these audits, the U.S. government may adjust our contract-related costs and fees. We cannot be certain that adjustments arising from government audits and reviews would not have a material adverse effect on our results of operations. Some of our contracts with the U.S. government are on a

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firm fixed price basis and, as such, are subject to more financial risk in the event of unanticipated cost overruns. For example, we recently announced that we had higher than planned costs in connection with a fixed price contract with the Navy.

All of our U.S. government contracts can be terminated by the U.S. government for its convenience. Termination-for-convenience provisions provide only for our recovery of costs incurred or committed, and for settlement of expenses and profit on work completed prior to termination. In addition to the right of the U.S. government to terminate its contracts with us, U.S. government contracts are conditioned upon the continuing approval by Congress of the necessary spending to honor such contracts. Congress often appropriates funds for a program on a fiscal-year basis even though contract performance may take more than one year. Consequently, at the beginning of many major governmental programs, contracts often may not be fully funded, and additional monies are then committed to the contract only if, as and when appropriations are made by Congress for future fiscal years. We cannot be certain that our U.S. government contracts will not be terminated or suspended in the future. The U.S. government s termination of, or failure to fully fund, one or more of our contracts would have a negative impact on our operating results and financial condition. Further, in the event that any of our government contracts are terminated for cause, it could affect our ability to obtain future government contracts which could, in turn, seriously harm our ability to develop our technologies and products.

We have recently learned that the United States House of Representatives Committee on Energy and Commerce, or Committee, and its Subcommittee on Oversight and Investigations has sent a letter to the United States Department of Homeland Security, or DHS, indicating that it is reviewing the origins of the sole source contract that DHS awarded to American Superconductor and Consolidated Edison for a project to develop electricity grids in New York City that can withstand major disruptions. As we previously announced, we signed a letter contract on this project on May 18, 2007 with DHS worth $1,700,000, of which DHS will fund $1,100,000. Final contract terms between DHS and us are being negotiated. Total project costs are estimated to be $39,300,000 with DHS providing up to $25,000,000 of the total project cost.

We have also learned that the Committee sent a letter to the Department of the Navy seeking information and documents regarding completed contracts between the U.S. Navy and us.

The Committee did not state the reason for its review of these matters. We have not been contacted regarding these matters and no information has been requested from us. Negotiations between us and the DHS regarding the final contract are continuing. While we continue to expect to successfully complete this contract, there can be no assurance that we will do so.

Our products face intense competition both from superconductor products developed by others and from traditional, non-superconductor products and alternative technologies, which could limit our ability to acquire or retain customers.

The market for superconductor products is intensely competitive. We face competition both from competitors in the superconductor field and from vendors of traditional products and new technologies. There are many companies in the United States, Europe, Japan and China engaged in the development of HTS wire, including EHTS (a division of Bruker Biospin), Evico, Fujikura, Furukawa Electric, Innova Superconductor Technology, Nexans, MetOx, Showa, Sumitomo Electric Industries, SuperPower (a subsidiary of Royal Philips Electronics) and Zenergy. The superconductor industry is characterized by rapidly changing and advancing technology. Our future success will depend in large part upon our ability to keep pace with advancing HTS technology and developing industry standards.

Our power electronic products, such as D-VAR and PQ-SVC products, compete with a variety of other power reliability products, such as dynamic voltage restorers, or DVRs, static VAR compensators, or SVCs, static compensators, or STATCOMS, flywheels, battery-based power quality systems and competing power electronic converter systems. The manufacturers of products that compete with our power electronic products and PowerModule products include ABB, Alstom, Mitsubishi Electric, S&C Electric and Siemens.

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Our Windtec business faces competition for the supply of wind turbine engineering design services from design engineering firms, such as Garrad Hassan, and from licensors of wind turbine systems, such as Aerodyn, DeWind and REpower. We also face indirect competition in the wind energy market from manufacturers of wind energy systems, such as Gamesa, General Electric, Suzlon and Vestas.

The stand-alone FCL products that we are developing in collaboration with Siemens face competition from several competitors developing alternative solutions, including Beijing Superconductor, Hypertech, Hyundai, Innopower, KEPRI, Nexans, Rolls-Royce, SC Power, Sumitomo Electric, Superpower and Toshiba. The HTS motor and generator products that we are developing face competition from copper wire-based motors and generators, from permanent magnet motors that are being developed, including by DRS Technologies, and from companies developing HTS rotating machinery, including Converteam, Doosan Heavy Industries & Construction, General Electric, Ishikawajima-Harima Heavy Industries Co., Rockwell and Siemens. Research efforts and technological advances made by others in the superconductor field, in the wind energy market or in other areas with applications to the power quality and reliability markets may render our development efforts obsolete.

Many of our competitors have substantially greater financial resources, research and development, manufacturing and marketing capabilities than we have. In addition, as the HTS wire, HTS electric motors and generators, and power electronic systems markets develop, other large industrial companies may enter those fields and compete with us. If we are unable to compete successfully, it may harm our business, which in turn may limit our ability to acquire or retain customers.

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 HTS products, and our success depends on our ability to license such patents or other proprietary rights.

We expect that some or all of the HTS materials, processes and technologies we use in designing and manufacturing our products are or will become covered by patents issued to other parties, including our competitors. If that is the case, we will need to acquire licenses to these patents, successfully contest the validity of these patents or re-engineer our products so that they do not infringe such patents. The owners of these patents may refuse to grant licenses to us, or may be willing to do so only on terms that we find commercially unreasonable. If we are unable to obtain these licenses, we may have to contest the validity or scope of those patents or re-engineer our products to avoid infringement claims by the owners of these patents. It is possible that we will not be successful in contesting the validity or scope of a patent, or that we will not prevail in a patent infringement claim brought against us. Even if we are successful in such a proceeding, we could incur substantial costs and diversion of management resources in prosecuting or defending such a proceeding.

Our patents may not provide meaningful protection for our technology, which could result in us losing some or all of our market position.

We own or have licensing rights under many patents and pending patent applications. However, the patents that we own or license may not provide us with meaningful protection of our technologies and may not prevent our competitors from using similar technologies, for a variety of reasons, such as:

- the patent applications that we or our licensors file may not result in patents being issued;
- any patents issued may be challenged by third parties; and

others may independently develop similar technologies not protected by our patents or design around the patented aspects of any technologies we develop.

Moreover, we could incur substantial litigation costs in defending the validity of our own patents. We also rely on trade secrets and proprietary know-how to protect our intellectual property. However, our non-disclosure agreements and other safeguards may not provide meaningful protection for our trade secrets and other proprietary information. If the patents that we own or license or our trade secrets and proprietary know-how fail to protect our technologies, our market position may be adversely affected.

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Our success is dependent upon attracting and retaining qualified personnel, and our inability to do so could significantly damage our business and prospects.

Our success will depend in large part upon our ability to attract and retain highly qualified research and development, management, manufacturing, marketing and sales personnel. Hiring those persons may be especially difficult due to the specialized nature of our business.

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.

We acquired Windtec on January 5, 2007 and Power Quality Systems on April 27, 2007. We may in the future acquire additional complementary businesses or technologies, although we currently have no commitments or agreements. As a result of the Windtec and Power Quality Systems acquisitions and any additional acquisitions we pursue, management s attention and resources may be diverted from our other businesses. An acquisition may also involve significant purchase price and significant transaction-related expenses.

Achieving the benefits of any acquisition involves additional risks, including:

- difficulty assimilating acquired operations, technologies and personnel;
- inability to retain management and other key personnel of the acquired business;
- changes in management or other key personnel that may harm relationships with the acquired business s customers and employees; and
- diversion of management attention as a result of the integration process.

We cannot ensure that we will realize any of the anticipated benefits of the Windtec and Power Quality Systems acquisitions or any other acquisition, and if we fail to realize these anticipated benefits, our operating performance could suffer.

Our international operations are subject to risks that we do not face in the U.S., which could have an adverse effect on our operating results.

We completed our acquisition of Windtec, an Austrian-based company, on January 5, 2007 and we are expanding our sales and service operations in Austria and the Asia-Pacific region. We expect our revenue and operations outside the United States will continue to expand in the future. Our international operations are subject to a variety of risks that we do not face in the U.S., including:

difficulties in staffing and managing our foreign offices and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;

potentially longer payment cycles for sales in foreign countries and difficulties in collecting accounts receivable;

additional withholding taxes or other taxes on our foreign income, and tariffs or other restrictions on foreign trade or investment, including export duties and quotas, trade and employment restrictions;

imposition of, or unexpected adverse changes in, foreign laws or regulatory requirements;

increased exposure to foreign currency exchange rate risk;

reduced protection for intellectual property rights in some countries; and

political unrest, war or acts of terrorism.

Our overall success in international markets depends, in part, upon our ability to succeed in differing legal, regulatory, economic, social and political conditions. We may not be successful in developing and implementing policies and strategies that will be effective in managing these risks in each country where we do business. Our failure to manage these risks successfully could harm our international operations and reduce our international sales, thus adversely affecting our business, operating results and financial condition.

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Our common stock may experience extreme 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.

The market price of our common stock has historically experienced significant volatility and may continue to experience such volatility in the future. Factors such as technological achievements by us and our competitors, the establishment of development or strategic relationships with other companies, our introduction of commercial products, and our financial performance may have a significant effect on the market price of our common stock. In addition, the stock market in general, and the stock of high technology companies in particular, have in recent years experienced extreme price and volume fluctuations, which are often unrelated to the performance or condition of particular companies. Such broad market fluctuations could adversely affect the market price of our common stock. Due to these factors, the price of our common stock may decline and investors may be unable to resell their shares of our common stock for a profit. Following periods of volatility in the market price of a particular company s securities, securities class action litigation has often been brought against that company. If we become subject to this kind of litigation in the future, it could result in substantial litigation costs, a damages award against us and the diversion of our management s attention.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, any prospectus supplement we may use in connection with this prospectus, and the documents we incorporate by reference into this prospectus contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. For this purpose, any statements contained herein that relate to future events or conditions, including without limitation, the statements included or incorporated by reference into this prospectus regarding industry prospects and our prospective results of operations or financial position, may be deemed to be forward-looking statements. 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. The important factors discussed above under Risk Factors, among others, could cause actual results to differ materially from those indicated by such forward-looking statements. Any such forward-looking statements represent management s views as of the date of the document in which such forward-looking statement is contained. 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.

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USE OF PROCEEDS

We estimate the net proceeds to us from this offering will be approximately $98 million, or approximately $113 million if the underwriters exercise their over-allotment option in full, based on an assumed public offering price of $22.26 per share, the last sale price of our common stock on July 6, 2007 as reported on the NASDAQ Global Market, after deducting the estimated underwriting discounts and commissions and the offering expenses payable by us.

We currently estimate that, of the net proceeds of this offering, we will spend

- approximately $10 million to fund the expansion of our operations in China and India;
- approximately $20 million to fund the expansion of our HTS wire manufacturing capacity; and
- approximately $10 million to finance working capital needs.

We intend to use any remaining proceeds for general corporate purposes, including bonding and corporate guarantees for large projects, and to pursue strategic business relationships and acquisitions.

The expected use of net proceeds that we receive in this offering represents our current intention based upon our present plans and business condition. The amounts and timing of our actual expenditures will depend upon numerous factors, including the success of our ongoing commercial efforts.

Pending the uses described above, we intend to invest the net proceeds of this offering in short-term, interest-bearing, investment-grade securities.

PRICE RANGE OF COMMON STOCK

Our common stock has been quoted on the NASDAQ Global Market under the symbol AMSC since 1991. The following table sets forth the high and low sale prices per share of our common stock as reported on the NASDAQ Global Market for the periods indicated.

	High	Low
Fiscal Year Ended March 31, 2006		
First Quarter	$ 11.45	$ 6.91
Second Quarter	11.99	8.70
Third Quarter	10.85	6.91
Fourth Quarter	11.89	7.92

Fiscal Year Ended March 31, 2007		
First Quarter	11.52	8.25
Second Quarter	10.39	6.73
Third Quarter	11.26	8.90
Fourth Quarter	15.20	9.20
Fiscal Year Ended March 31, 2008		
First Quarter	21.48	13.10
Second Quarter (through July 6, 2007)	22.42	19.28

On July 6, 2007, the last sale price of our common stock as reported on the NASDAQ Global Market was $22.26.

DIVIDEND POLICY

We have never paid cash dividends on our common stock. We currently intend to retain earnings, if any, to fund the development and growth of our business and do not anticipate paying cash dividends for the foreseeable future. Payment of future cash dividends, if any, will be at the discretion of our Board of Directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs and plans for expansion.

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CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2007:

- on an actual basis; and
- on an as adjusted basis to reflect the issuance and sale of 4,700,000 shares of our common stock in this offering at the assumed public offering price of $22.26 per share, the last sale price of our common stock on July 6, 2007 as reported on the NASDAQ Global Market, after deducting the estimated underwriting discounts and commissions and the offering expenses payable by us.

This table excludes 4,140,309 shares of our common stock reserved as of March 31, 2007 for issuance upon exercise of outstanding options and warrants, with a weighted average exercise price of $16.14 per share, and 295,329 shares of our common stock issued in connection with our acquisition of Power Quality Systems. You should read this table together with our financial statements and accompanying notes, which are incorporated by reference into this prospectus, and with Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus.

	As of March 31, 2007	
	Actual	As Adjusted
	(in thousands)	
Long-term debt	$	$
Stockholders equity:		
Common stock, $.01 par value; 100,000,000 shares authorized; 35,016,073 shares issued and outstanding, actual; 39,716,073 shares issued and outstanding, as adjusted	350	397
Additional paid-in capital	486,194	584,160
Deferred contract costs warrant	(13)	(13)
Accumulated other comprehensive income	145	145
Accumulated deficit	(385,055)	(385,055)
Total stockholders equity	101,621	199,634
Total capitalization	$ 101,621	$ 199,634

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DILUTION

Our net tangible book value as of March 31, 2007 was approximately $85,650,000, or $2.45 per share. Net tangible book value per share represents our total tangible assets less our total liabilities, divided by the aggregate number of shares of our common stock outstanding. After giving effect to the sale of 4,700,000 shares of our common stock in this offering, at an assumed public offering price of $22.26 per share, the last sale price of our common stock as reported on the NASDAQ Global Market on July 6, 2007, after deducting the estimated underwriting discounts and commissions and the offering expenses payable by us, our net tangible book value at March 31, 2007 would have been approximately $183,663,168, or $4.62 per share. This represents an immediate increase in net tangible book value per share of $2.17 to existing stockholders and an immediate dilution of $17.64 per share to new investors. Dilution per share represents the difference between the amount per share paid by the new investors in this offering and the net tangible book value per share at March 31, 2007, giving effect to this offering. The following table illustrates this per share dilution to new investors.

Public offering price per share		$ 22.26
Net tangible book value per share as of March 31, 2007	$ 2.45	
Increase in net tangible book value per share attributable to new investors	2.17	
Net tangible book value per share after this offering		4.62
Dilution per share to new investors		$ 17.64

These calculations assume no exercise of stock options and warrants outstanding as of March 31, 2007. As of March 31, 2007, there were options and warrants outstanding to purchase an aggregate of 4,140,309 shares of our common stock with a weighted average exercise price of $16.14 per share.

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SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data presented below for each of the five fiscal years in the period ended March 31, 2007 have been derived from our audited consolidated financial statements, including those incorporated in this prospectus by reference to our Annual Report on Form 10-K for the year ended March 31, 2007. The financial data presented below should be read in conjunction with the other financial information appearing elsewhere in this prospectus or incorporated by reference into this prospectus.

	Fiscal Year Ended March 31,				
	2007	2006	2005	2004	2003
	(In thousands, except per share data)				
Statement of Operations Data					
Revenues:					
Contract revenue	$ 2,420	$ 1,712	$ 1,757	$ 874	$ 715
Product sales and prototype development contracts	49,763	49,161	56,526	40,434	20,305
Total revenues	52,183	50,872	58,283	41,309	21,020
Costs and expenses:					
Costs of revenue contract revenue	1,970	1,511	1,702	825	684
Cost of revenue product sales and prototype development contracts	50,730	51,938	56,172	43,455	31,518
Research and development	17,453	14,961	9,037	14,056	21,940
Selling, general and administrative	17,894	10,989	11,721	8,659	16,159
Restructuring charges	524				
Impairment charge	144	4,960			39,231
Total costs and expenses	88,715	84,359	78,632	66,995	109,532
Operating loss	(36,532)	(33,487)	(20,349)	(25,686)	(88,512)
Interest income	2,179	2,610	807	296	869
Other income (expense), net	(424)	(126)	(118)	45	10
Net loss[1]	$ (34,675)	$ (30,876)	$ (19,660)	$ (26,733)	$ (87,633)
Net loss per common share (basic and diluted)	$ (1.04)	$ (0.94)	$ (0.70)	$ (1.10)	$ (4.21)
Weighted average number of common shares outstanding (basic and diluted)	33,261	32,685	28,215	24,196	20,831

(1) Included in the net loss for the year ended March 31, 2007 was a $3,680,000 charge related to our adoption of SFAS 123(R) and a $667,000 charge for restructuring and long-lived asset impairments related to our decision to re-align our AMSC Wires and AMSC Supermachines business units into the newly formed AMSC Superconductors business unit. The net loss for the year ended March 31, 2006 included a $4,960,000 long-lived asset impairment charge related to our decision to complete the transition from 1G HTS wire to a lower cost 2G HTS wire manufacturing methodology. The net loss for the year ended March 31, 2003 included a $39,231,000 impairment charge related primarily to our building and equipment assets in Devens, Massachusetts that was recorded in connection with our plans to transition from 1G HTS wire to 2G HTS wire.

	As of March 31,				
	2007	2006	2005	2004	2003
	(In thousands)				
Balance Sheet Data					
Cash and cash equivalents and marketable securities	$ 35,324	$ 65,669	$ 87,581	$ 52,647	$ 20,049
Working capital	34,942	66,220	77,272	46,202	19,407

Total assets	132,433	133,470	158,917	129,899	101,979
Total long-term debt					
Stockholders equity	101,621	115,100	143,510	115,452	87,819

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Overview

American Superconductor Corporation was founded in 1987. We are a leading energy technologies company, offering an array of solutions based on two proprietary technologies: programmable power electronic converters and high temperature superconductor, or HTS, wires. Our 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 our power electronic converters differentiates them from most competitive offerings. Our HTS wires carry 150 times the electrical current of comparably sized copper wire. The two primary markets we serve are the wind energy market and the power transmission and distribution or power grid market.

Our HTS wire addresses constraints on the power grid by increasing the electric current carrying capacity of the transmission cables comprising these power grids and by providing for the manufacture of controllable alternating current power cables. In addition, our HTS wire, when incorporated into primary electrical equipment such as motors and generators, can provide increased manufacturing and operating savings due to a significant reduction in the size and weight of this equipment. Also, our power electronic converters increase the quantity, quality and reliability of electric power that is transmitted by electric utilities or consumed by large industrial entities.

Our products are in varying stages of commercialization. Our power electronic converters have been sold commercially, as part of an integrated system, to utilities, industrial manufacturers and wind farm developers, owners and operators since 1999. Our HTS wire has been produced commercially since the beginning of 2003, although its principal applications (power cables, fault current limiters, rotating machines and specialty magnets) are currently in the prototype stage. Some of these prototypes are funded by U.S. government contracts, primarily with the Department of Defense, or DOD, and Department of Energy, or DOE.

One of our major contracts with the U.S. Navy was converted from a cost-plus-incentive-fee contract to a firm-fixed-price contract on April 26, 2006, subjecting it to more financial risk in the event of unanticipated cost overruns. During the quarter ended December 31, 2006, a crack was discovered in a non-superconductor component of the 36.5 megawatt, or MW, motor that required repair. This event caused an unanticipated cost overrun on the Navy 36.5 MW contract that resulted in an estimated loss on this program of approximately $1,616,000 being recorded in the quarter ended December 31, 2006. The crack was fully repaired and reassembly of the motor was completed in February 2007. However, additional technical issues occurred during the initial phase of factory acceptance testing in late February 2007, causing additional delays and cost overruns that led to a $1,489,000 increase in the estimated loss on this program to $3,105,000. The motor successfully passed factory acceptance testing at the end of March 2007 and was delivered to the Navy in June 2007.

The site for the Long Island Power Authority, or LIPA, 138,000 volt (138kV) HTS cable system in Hauppauge, New York has now been fully prepared, the cryogenics system has been completed and is operating, the cables have been manufactured and underground installation began in the spring of 2007. Commissioning of the cable system is scheduled for the fall of 2007. In March 2007, the DOE released the remaining incremental funding up to the then-current authorized contract ceiling of $23,456,000, which allowed us to recognize revenue of $2,721,000 during the quarter ended March 31, 2007 related to costs which had previously been deferred and recorded as inventory as of December 31, 2006. In May 2007, the DOE awarded us a contract modification of $4,002,000 to cover subcontractor cost growth on the LIPA project, increasing the contract ceiling to $27,458,000. On March 31, 2007, as a result of this contract modification being anticipated, we inventoried costs of $1,127,000 incurred in excess of the then-current contract ceiling of $23,456,000 as management deemed that future funding sufficient to cover these deferred costs was probable. These inventoried costs as of March 31,

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2007, will be recorded as costs of revenue and the corresponding revenue will be recognized in the first quarter of the fiscal year ending March 31, 2008.

Our success in the development efforts related to our lower-cost, second generation (2G) HTS wire led to a management decision in March 2006 to complete the transition of our HTS wire manufacturing operation from first generation (1G) to 2G HTS wire. As a result, all 1G wire production ceased with near-term market needs for HTS wire to be met from approximately 400,000 meters of 1G HTS wire inventory that was in stock as of March 31, 2006. As of March 31, 2007, approximatley 280,000 meters remained in inventory, of which approximately 180,000 meters remained available for sale with the remainder committed to certain customers. We expect this remaining inventory will enable us to achieve our sales objectives for HTS wire while reducing operating losses and operating cash requirements for our AMSC Superconductors business unit.

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 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. We are currently in the process of installing equipment for our 344 superconductors manufacturing line, which we expect will have a gross production capacity of approximately 720,000 meters per year in December 2007. This manufacturing line is expected to require approximately $12,000,000 to $14,000,000 in capital investment by December 2007, of which approximately $9,000,000 has been spent on a cumulative basis through March 31, 2007.

On January 5, 2007, we completed the acquisition of Windtec Consulting GmbH, or Windtec. Windtec is an Austria-based designer and licensor of wind turbine systems and a provider of wind turbine electrical systems. Windtec is now a wholly-owned subsidiary and is operated by our AMSC Power Systems business unit. The Windtec purchase price was 1.3 million shares of our common stock, valued at approximately $13,100,000 based on a five-day average stock price of $10.08 per share at the time of signing the definitive acquisition agreements on November 28, 2006. The shares are subject to a lockup whereby the former sole owner and founder of Windtec may sell only a certain number of shares per year through January 2010. The all-stock transaction also includes an earn-out opportunity with the potential for the issuance of up to an additional 1.4 million shares of our common stock to be granted to the former owner and founder based on the achievement by Windtec of certain revenue growth targets for the years ending March 31, 2008 through March 31, 2011. The transaction includes the acquisition of 27 patents and patents pending worldwide on wind turbine technology. Prior to our acquisition of Windtec, Windtec was a customer of our Power Systems business unit for which we reported revenues of approximately $2,584,000 for the nine-month period ended December 31, 2006 and approximately $165,000 during the year ended March 31, 2006. Beginning on January 5, 2007, Windtec s results of operations are included in our consolidated financial statements.

On March 26, 2007, our Board of Directors approved a restructuring plan, which is referenced to as the Plan, to reduce future operating costs and to transition our high temperature superconductor products to the manufacturing stage by consolidating AMSC Wires, SuperMachines and Power Electronic Systems business segments into two operating segments: AMSC Superconductors and AMSC Power Systems. We consolidated our manufacturing operations by closing one of our two Westborough, Massachusetts facilities, moving operations from that facility into our Devens, Massachusetts plant, and reducing headcount by 37 employees.

We estimated aggregate restructuring charges associated with the Plan of approximately $737,000. Of this total, $524,000 of the restructuring charges was incurred during the quarter ended March 31, 2007, consisting of:

- cash payments of $380,000 for severance obligations payable primarily during the quarter ended June 30, 2007;

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$51,000 in expenses incurred for the relocation of employees, equipment and inventory to the our Devens facility, payable during the quarter ended June 30, 2007; and

a $93,000 accrual for the remaining lease payments on the vacated Westborough facility, with payments being made to our former landlord during the six-month period ending September 30, 2007.

Additional cash payments of $213,000 for severance obligations will be expensed during the quarter ending June 30, 2007 and are expected to be paid out over the six-month period ending September 30, 2007, as a small number of the 37 affected employees remained with us through the end of May 2007 in order to complete ongoing projects. We expect approximately $4,000,000 in savings related to salaries and facility-related costs in the year ending March 31, 2008. The restructuring actions under the Plan were substantially completed as of May 31, 2007.

On April 27, 2007, we completed the acquisition of Power Quality Systems, Inc., or PQS, in an all-stock transaction valued at approximately $4,000,000 based on our closing stock price on April 27, 2007. Located in Pennsylvania, PQS offers reactive compensation products known as Static VAR Compensators, or SVCs, based on its proprietary thyristor switch technology. These products enhance the reliability of power transmission and distribution grids and improve the quality of power for manufacturing operations. PQS is being integrated into the AMSC Power Systems business unit. The 295,329 shares of stock issued as purchase price are subject to a lockup agreement whereby the former owners of PQS may sell only a certain number of shares per year through April 2009. The transaction also includes an earn-out opportunity with the potential for up to an additional 475,000 shares of our common stock to be issued to PQS s former owners based on the achievement of certain order growth targets for existing PQS products for the years ending March 31, 2008 and 2009.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenue 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.

Our accounting policies that involve the most significant judgments and estimates are as follows:

Stock-based compensation;

Revenue;

Long-lived assets;

Inventory accounting;

Income taxes;

Goodwill; and

Acquisition accounting.

Stock-based compensation. On April 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment, which requires us to account for stock-based payment transactions using a fair value-based method and recognize the related expense in the results of operations. We also applied the provisions of Staff Accounting Bulletin No. 107 in our adoption of SFAS No. 123(R). Prior to our adoption of SFAS No. 123(R), we accounted for stock-based payments to employees using the Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, which required us to use the

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intrinsic value method. Therefore, we recognized compensation expense for restricted stock awards and did not recognize compensation cost for employee stock options where the exercise price of the stock option was equal to the market value of the underlying common stock on the date of grant. SFAS No. 123(R) allows companies to choose one of two transition methods: the modified prospective method or the modified retrospective transition method. Effective April 1, 2006, we elected the modified prospective method of transition and accordingly have not restated the results of prior periods. Stock-based compensation expense includes expense for the unvested awards outstanding at March 31, 2006 and all awards granted subsequent to March 31, 2006.

Under the fair value recognition provisions of SFAS No. 123(R), stock-based compensation is estimated at the grant date based on the fair value of the award and is recognized as expense over the requisite service period of the award. The fair value of restricted stock awards is determined by reference to the fair market value of our common stock on the date of grant. Consistent with the valuation method we used for disclosure-only purposes under the provisions of SFAS No. 123(R), we use the Black-Scholes option pricing model to estimate the fair value of awards with service condition and performance condition awards under SFAS No. 123(R). For awards with service conditions, we recognize compensation cost on a straight-line basis over the requisite service/vesting period. For awards with service and performance conditions and graded-vesting features (a certain percentage of stock awards vest each period), we recognize compensation costs on an accelerated, graded-vesting basis over the requisite service/vesting period. We use the lattice model to value market condition awards. For awards with market conditions with a single cliff vest feature, we recognize compensation costs on a straight-line basis over the requisite service period.

Determining the appropriate fair value model and related assumptions requires judgment, including estimating stock price volatilities of our common stock, forfeiture rates and expected terms. The expected volatility rates are estimated based on historical and implied volatilities of our common stock. The expected term represents the average time that the options that vest are expected to be outstanding based on the vesting provisions and our historical exercise, cancellation and expiration patterns. We estimate pre-vesting forfeitures when recognizing compensation expense based on historical and forward-looking factors. Changes in estimated forfeiture rates and differences between estimated forfeiture rates and actual experience may result in significant, unanticipated increases or decreases in stock-based compensation expense from period to period. The termination of employment of certain employees who hold large numbers of stock-based awards may also have a significant, unanticipated impact on forfeiture experience and, therefore, on stock-based compensation expense. We will update these assumptions on at least an annual basis and on an interim basis if significant changes to the assumptions are warranted.

Revenue. For certain arrangements, such as prototype development contracts and certain product sales, we record revenues using the percentage of completion method, measured by the relationship of costs incurred to total estimated contract costs. We use the percentage of completion revenue recognition method when a purchase arrangement meets all of the criteria in Statement of Position 81-1. Percentage of completion revenue recognition accounting is predominantly used on long-term prototype development contracts with the U.S. government, such as the 36.5 MW motor contract with the U.S. Navy. We follow this method since reasonably dependable estimates of the revenues and costs applicable to various stages of a contract can be made. However, the ability to reliably estimate total costs at completion is challenging, especially on long-term prototype development contracts, and could result in future changes in contract estimates. Since many contracts extend over a long period of time, revisions in scope, cost and funding estimates during the progress of work have the effect of adjusting earnings in the current period. Recognition of contract revenues and profit or loss are subject to revisions as the contract work progresses to completion. Revisions in profit or loss estimates are charged to income in the period in which the facts that give rise to the revision become known. During the year ended March 31, 2007, as a result of cost overruns and changes in estimates, we recorded an estimated loss of $3,105,000 related to the Navy 36.5 MW motor program.

We recognize revenue for other product sales upon customer acceptance, which can occur at the time of delivery, installation, or post-installation, where applicable, provided persuasive evidence of an arrangement

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exists, delivery has occurred, the sales price is fixed or determinable and the collectibility is reasonably assured. For multiple-element arrangements, we use the residual method to allocate value to each undelivered item. Under the residual method, each undelivered item is allocated value based on verifiable objective evidence of fair value for that item and the remainder of the total arrangement price is allocated to the delivered items. For a delivered item to be considered a separate unit, the delivered item must have value to the customer on a standalone basis, there must be objective and reliable evidence of fair value of the undelivered items in the arrangement and the delivery or performance of the undelivered items must be considered probable and substantially within our control. We do not provide our customers with contractual rights of return for any of our products. When other significant obligations remain after products are delivered, revenue is recognized only after such obligations are fulfilled. The determination of what constitutes a significant post-delivery performance obligation (if any post-delivery performance obligations exist) is the primary subjective consideration we systemically evaluate in the context of each product shipment in order to determine whether to recognize revenue on the order or to defer the revenue until all post-delivery performance obligations have been completed.

Revenues associated with consulting, training and other similar services are recognized as the services are performed. Royalty revenue is recognized as the royalties are earned.

Customer deposits received in advance of revenue recognition are recorded as deferred revenue until customer acceptance is received. Deferred revenue also represents the amount billed to and/or collected from commercial and government customers on contracts which permit billings to occur in advance of contract performance/revenue recognition.

Long-Lived Assets. We periodically evaluate our long-lived assets, consisting principally of fixed assets and intangible assets, for potential impairment under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. We perform these evaluations whenever events or circumstances suggest that the carrying amount of an asset or group of assets is not recoverable. Our judgments regarding the existence of impairment indicators are based on market and operational performance. Indicators of potential impairment include:

- a significant change in the manner in which an asset is used;
- a significant decrease in the market value of an asset;
- a significant adverse change in its business or the industry in which it is sold;
- a current period operating cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the asset; and
- significant advances in our technologies that require changes in our manufacturing process.

If we believe an indicator of potential impairment exists, we test to determine whether impairment recognition criteria in SFAS No. 144 have been met. To analyze a potential impairment, we project undiscounted future cash flows expected to result from the use and eventual disposition of the asset or primary asset in the asset group over its remaining useful life. If these projected cash flows are less than the carrying amount, an impairment loss is recognized in the Consolidated Statements of Operations based on the difference between the carrying value of the asset or asset group and its fair value, less any disposition costs. Evaluating the impairment requires judgment by our management to estimate future operating results and cash flows. If different estimates were used, the amount and timing of asset impairments could be affected.

In the fourth quarter of the year ended March 31, 2007, we recorded a $144,000 impairment charge to write down the value of certain manufacturing equipment as a result of our decision to consolidate and streamline the HTS operations of SuperMachines and AMSC Wires into our newly formed AMSC Superconductors business unit. The decision to consolidate the two business units and to move to a business model focusing on licensing certain rotating machine- related technology resulted in a change in how certain assets would be utilized going

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forward in the newly structured business unit. In the fourth quarter of the year ended March 31, 2006, we recorded a $4,960,000 impairment charge to write down the value of our 1G asset group (consisting of equipment, patents and licenses), related to our decision to complete the transition of our wire manufacturing operations from 1G to 2G HTS wire, and to cease 1G HTS wire manufacturing. As of March 31, 2007, the net book value of these 1G manufacturing equipment assets are classified as assets held for sale and are carried at their estimated salvage value of $2,171,000. We plan to sell these assets during the year ending March 31, 2008 through a public auction in June 2007 and subsequent private sales to interested parties. No impairment charges were recorded in the year ended March 31, 2005.

Inventory accounting. We write down inventory for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of the inventory and the estimated realizable value based upon assumptions of future demand and market conditions. If actual market conditions are less favorable than those projected, additional inventory write-downs may be required. Program costs may be deferred and recorded as inventory on contracts on which costs are incurred in excess of funding, if future funding is deemed probable.

During the fourth quarter of the year ended March 31, 2007, we wrote off $933,000 of inventoried costs related to one of the two SuperVAR synchronous condensers, or SuperVAR, we had planned to ship to a customer due to technical issues with the unit. During the year ended March 31, 2006, we wrote down $1,591,000 of 1G HTS wire inventory to its estimated net realizable value based on an analysis of existing backlog and anticipated demand for our 1G wire. Any future sales of previously written-down inventory will result in the recognition of revenue with minimal corresponding costs of revenue, which when sold will have a positive impact on our gross margin. During the fourth quarter of the year ended March 31, 2007, we began to realize sales of 1G HTS wire on previously written-down inventory. Approximately 31,000 meters of previously written-down 1G HTS wire was sold for $514,000 with related costs of revenue of $81,000. As of March 31, 2007, we had 1G HTS wire inventory with an original cost basis of $3,224,000 that has been written down to estimated scrap value of $983,100.

Income taxes. In accordance with applicable accounting standards, we regularly assess our ability to realize our deferred tax assets. Assessments of the realization of deferred tax assets require that management consider all available evidence, both positive and negative, and make significant judgments about many factors, including the amount and likelihood of future taxable income. Based on all the available evidence, we have recorded a valuation allowance to reduce our U.S. deferred tax assets to the amount that is more likely than not to be realizable due to the taxable losses incurred by us since our inception. Under current federal law, the utilization of the net operating loss and research and development and other tax credit carryforwards may be subject to limitations due to changes in ownership.

Goodwill. Goodwill represents the excess of cost over net assets of acquired businesses that are consolidated. In accordance with SFAS No. 142 Goodwill and Other Intangible Assets, goodwill is not amortized. In lieu of amortization, we perform an impairment review of our goodwill at least annually or when events and changes in circumstances indicate the need for such a detailed impairment analysis, as prescribed by SFAS No. 142. Goodwill is considered impaired when the carrying value of a reporting unit exceeds its estimated fair value. In assessing the recoverability of goodwill, we make assumptions regarding estimated future cash flows and other factors to determine the fair value of the reporting unit. To date, we have determined that goodwill is not impaired, but we could in the future determine that goodwill is impaired, which would result in a charge to earnings.

Acquisition accounting. We account for acquisitions under the purchase method of accounting in accordance with SFAS No. 141 Business Combinations (SFAS No. 141). We allocate the purchase price to the assets acquired and liabilities assumed based on their estimated fair values as of the date of acquisition. The excess of the purchase price paid by us over the estimated fair value of identifiable net assets acquired is recorded as goodwill.

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In November 2006, we entered into a Stock Purchase Agreement with the Gerald Hehenberger Privatstiftung, a trust incorporated according to the laws of Austria, or Trust, related to the acquisition of Windtec, a corporation incorporated according to the laws of Austria. Windtec develops and sells electrical systems for wind turbine systems. Windtec also provides technology transfer for the manufacturing of wind turbines; documentation services; and training and support regarding assembly, installation, commissioning, and service. Prior to entering into the Stock Purchase Agreement, Windtec was a customer since 2005 for our PowerModule PM1000 power converters that are utilized for the management and stabilization of electricity produced by wind turbine generators. We completed the acquisition in January 2007.

Pursuant to the Stock Purchase Agreement, we purchased from the Trust all of the issued and outstanding shares of Windtec, for which we paid the Trust 1,300,000 shares of our common stock. Additionally, we will pay the Trust up to an additional 1,400,000 shares of common stock upon Windtec s achievement of specified revenue objectives during the four years following closing of the acquisition. As a result of this transaction, Windtec is a wholly-owned subsidiary. The total purchase price of approximately $13,562,000 includes the fair value of the shares of common stock issued and transaction costs of $458,000. We allocated the purchase price to the assets acquired and liabilities assumed at their estimated fair values as of the date of the acquisition. The excess of the purchase price paid by us over the estimated fair value of net assets acquired has been recorded as goodwill. We have acquired intangible assets consisting of contractual relationships/backlog, customer relationships, trade names and trademarks, core technology and know-how, and goodwill. We amortize our customer relationships, trade names and trademarks, and core technology and know-how using the straight-line method over a period of 5 to 7 years, which approximates the expected economic consumption of these assets. We amortize our contractual relationships/backlog using the economic consumption method over an estimated period of 2 years. The issuance of any future shares of common stock based on the achievement of specified revenue objectives will increase goodwill.

RESULTS OF OPERATIONS

Years Ended March 31, 2007 and March 31, 2006

We have two reportable business segments AMSC Power Systems and AMSC Superconductors. On March 26, 2007, in connection with the Board of Directors approval of the restructuring plan, we began operating and reporting our financial results to the Chief Executive Officer in two reportable business segments: AMSC Superconductors and AMSC Power Systems. Accordingly, we recast our prior-year business segment financial information to conform to the new segment presentation.

AMSC Power Systems supplies power electronic systems used in wind turbines; produces products to increase electrical grid capacity and reliability and to regulate wind farm voltage for the electrical grid; and licenses proprietary wind energy system designs to manufacturers of such systems and provides consulting services to the wind industry through its Windtec subsidiary.

During the fourth quarter of the year ended March 31, 2007, we acquired Windtec and integrated that business into our AMSC Power Systems business unit. Results of Windtec s operations are included in our consolidated results from the date of acquisition on January 5, 2007.

AMSC Superconductors focuses on the manufacturing of HTS wire and coils; the design and development of HTS products, such as power cables, fault current limiters and motors; and the management of large-scale HTS projects, such as HTS power cable system design, manufacturing and installation.

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Revenues

Total consolidated revenues increased to $52,183,000 in the year ended March 31, 2007 from $50,872,000 for the prior year, an increase of $1,311,000.

	For the year ended March 31,	
Revenues	**2007**	**2006**
AMSC Power Systems	$ 30,850,000	$ 15,001,000
AMSC Superconductors	21,333,000	35,871,000
Total	$ 52,183,000	$ 50,872,000

The $1,311,000 increase in consolidated revenues for the year ended March 31, 2007 was the result of an increase of $15,849,000 in the AMSC Power Systems business unit, partially offset by a decrease of $14,538,000 in the AMSC Superconductors business unit.

Revenues in our AMSC Power Systems business unit, which consist of revenues from D-VAR, PQ-IVR and PowerModule product sales, service contracts, consulting arrangements, license agreements and prototype development contracts, increased by $15,849,000 or 106% to $30,850,000 for the year ended March 31, 2007 from $15,001,000 for the prior year. The increase was primarily the result of a higher level of D-VAR and PowerModule system sales due to the growing demand for wind energy solutions, and higher PQ-IVR sales to industrial customers and revenue generated by Windtec subsequent to the acquisition. D-VAR system sales contributed approximately 51% growth from the prior year. This growth in D-VAR system sales can be partially attributed to countries such as the United Kingdom, Canada, Australia and New Zealand where transmission grid operators have adopted stringent interconnection standards for wind farms requiring dynamic voltage control. During the year ended March 31, 2007, we also shipped our first dynamic VAR compensator (DVC) to a customer in Iceland.

The Windtec acquisition completed on January 5, 2007 contributed approximately $4,000,000 of additional revenue in the quarter ended March 31, 2007, net of the revenue that would have been recognized on the PowerModule shipments from us to Windtec absent the acquisition. PowerModule sales increased by over 500% from the prior fiscal year primarily as a result of PM1000 system shipments to a Windtec electrical systems customer in China. The continuing growth of the wind industry coupled with the increased global nature of our sales and the April 2007 acquisition of Power Quality Systems provide a strong foundation for continued growth in AMSC Power Systems.

Revenues in our AMSC Superconductors business unit, which consist of contract revenues, product sales from HTS wire sales, the DOE-sponsored project to install an HTS power cable in the transmission grid of the LIPA, and prototype development contract revenues primarily related to the work performed on the firm-fixed-price contract for the U.S. Navy s 36.5 MW motor, decreased by $14,538,000 or 41% to $21,333,000 for the year ended March 31, 2007 from $35,871,000 for the year ended March 31, 2006. This decrease was primarily attributable to an $8,765,000 decrease in 36.5 MW motor program revenues and a $5,540,000 decrease in LIPA project revenues.

On April 26, 2006, a contract modification from the Navy on the 36.5 MW motor program was received that provided $13,344,000 in additional funding, thereby increasing the contract value to $90,150,000 and converting it from a cost-plus-incentive-fee contract to a firm-fixed-price contract. Revenues on this program are recognized on a percentage of completion basis and, as such, are subject to adjustments when estimates to complete the program are revised. The revenue decrease of $8,765,000 from the prior year related to the 36.5 MW motor program is due to a

lower level of work performed on the motor program in the year ended March 31, 2007 as the program neared completion. In addition, delays in the completion of the motor resulted in an increase in

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estimated costs as well as a delay in revenue recognition of $1,283,000 from the year ended March 31, 2007 until the first quarter ending June 30, 2007 of the next fiscal year. During the quarter ended December 31, 2006, a crack was discovered in a non-superconductor component of the 36.5 MW motor that required repair. This event caused an unanticipated cost overrun that resulted in an estimated loss on this program of approximately $1,616,000 being recorded in the quarter ended December 31, 2006. The crack was fully repaired and reassembly of the motor was completed in February 2007. However, additional technical issues occurred during the initial phase of factory acceptance testing in late February 2007, causing additional delays and cost overruns that led to a $1,489,000 increase in the estimated loss on this program to $3,105,000. The motor successfully passed factory acceptance testing at the end of March 2007 and was delivered to the Navy in June 2007. Of the $13,344,000 of additional funding received in April 2006, $12,061,000 has been recognized as revenue in the year ended March 31, 2007. $20,826,000 of revenue was recognized on this program in the year ended March 31, 2006. $1,283,000 is expected to be recognized as revenue in the three months ending June 30, 2007.

On October 13, 2006, we signed a cost-plus-fixed-fee contract valued at $5,254,000 with the U.S. Naval Sea Systems Command, or NAVSEA, for the design and optimization of HTS ship propulsion motors and power electronic drives. The first $1,900,000 of incremental funding has been allotted for the initial stage of this contract, which is expected to be completed in the next nine months. We recognized $389,000 of revenue during the year ended March 31, 2007 on this contract under the percentage of completion method. Revenue from other prototype development contracts related to rotating machines decreased by $56,000 to $156,000 in the year ended March 31, 2007 from $212,000 in the year ended March 31, 2006. We are pursuing additional contracts for HTS motors and generators with the U.S. Navy and our strategic business alliance partner, Northrop Grumman Marine Systems, among others. However, we expect revenues related to motors to be significantly lower in the year ending March 31, 2008 compared to the year ended March 31, 2007 as we delivered the 36.5 MW motor in June 2007 and completed the final phase of the $90,150,000 Navy contract.

LIPA project revenues decreased by $5,540,000 to $4,144,000 for the year ended March 31, 2007 from $9,684,000 for the year ended March 31, 2006 due to a combination of funding limitations from the DOE and a lower level of work performed compared to prior year. In March 2007, the DOE released the remaining incremental funding up to the then-current authorized contract ceiling of $23,456,000, which allowed us to recognize revenue of $2,721,000 during the quarter ended March 31, 2007 related to costs that had previously been deferred and recorded as inventory as of December 31, 2006. In May 2007, the DOE awarded a contract modification of $4,002,000 to cover subcontractor cost growth on the LIPA project, increasing the contract ceiling to $27,458,000. On March 31, 2007, as a result of this contract modification being anticipated, we inventoried costs of $1,127,000 in excess of the then-current contract ceiling of $23,456,000 as management deemed that future funding sufficient to cover these deferred costs was probable. The deferred program costs consisted primarily of materials, labor, overhead, and subcontractor costs. As a result of the DOE awarded contract modification in May 2007, these deferred program costs that were inventoried as of March 31, 2007 will be recorded as costs of revenue and the corresponding revenue will be recognized in the first quarter of the fiscal year ending March 31, 2008. We expect to complete this project in the fall of 2007.

We anticipate that we will realize additional HTS cable project revenues in the year ending March 31, 2008 from the Project Hydra contract with Consolidated Edison, which is being funded by DHS and was announced on May 21, 2007. DHS is expected to invest up to a total of $25,000,000 in the development of a new high temperature superconductor power grid technology to enable Secure Super Grids. Secure Super Grids utilize customized HTS wires, HTS power cables and ancillary controls to deliver more power through the grid while also being able to suppress power surges that can disrupt service. On May 18, 2007, we signed a letter contract valued at $1,700,000, of which DHS provided initial funding of $1,100,000, to commence work on this project. Final contract terms and conditions are estimated to be $39,300,000 for this three-year project and are expected to be completed within 90 days of the letter contract. Consolidated Edison and Southwire Company are expected to be subcontractors to us. The remaining costs not funded by DHS will be cost shared by us and Consolidated Edison.

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Wire sales to other customers decreased by $586,000 to $2,656,000 in the year ended March 31, 2007, compared to $3,242,000 in the year ended March 31, 2006, as a result of lower 1G HTS wire demand as we transition to manufacturing 2G wire. This decrease was partially offset by a $21,000 increase in AMSC Superconductors contract revenues, which were $1,927,000 in the year ended March 31, 2007, compared to $1,906,000 in the prior-year period. We expect wire sales to other customers and contract revenues to remain relatively flat in the year ending March 31, 2008. We are in the process of installing, testing, and qualifying capital equipment for manufacturing our 2G HTS wire, the sales of which are currently constrained by limited manufacturing capacity. We expect to sell limited quantities of 2G HTS wire while we expand our 344 superconductor manufacturing line. We expect to have an annual gross capacity of 720,000 meters of wire at the end of calendar year 2007. We expect to continue to meet near-term customer demand for HTS wire from the approximately 280,000 meters of 1G HTS wire we had in inventory as of March 31, 2007.

Cost-sharing funding

In addition to reported revenues, we also received funding of $2,919,000 for the year ended March 31, 2007 under U.S. government cost-sharing agreements with the U.S. Air Force and DOE, compared to $1,644,000 for the year ended March 31, 2006, an increase of $1,275,000. This increase in funding which was recognized as an offset to operating expenses, was the result of the $5,350,000 Title III contract awarded by the Air Force in December 2005. Under the Title III contract, we recognized cost-sharing funding of $2,260,000 and $568,000 as an offset to operating expenses for the years ended March 31, 2007 and March 31, 2006, respectively. As required by government contract accounting guidelines, funding from government cost-sharing agreements is recorded as an offset to research and development and selling, general and administrative expenses, rather than as revenue. All of our cost-sharing agreements provide funding in support of 2G wire development work being performed in the AMSC Superconductors business unit. We anticipate that a portion of our funding in the future will continue to come from cost-sharing agreements as we continue to develop joint programs with government agencies. Backlog as of March 31, 2007 relating to cost-sharing agreements was $2,663,000.

Costs and expenses

Total costs and expenses for the year ended March 31, 2007 were $88,715,000 compared to $84,359,000 for the prior year, a $4,356,000 increase caused primarily by an increase in selling, general and administrative expenses along with an increase in research and development expenses. These increases were partially offset by lower costs of revenue-product sales and prototype development costs. Included in costs and expenses for the year ended March 31, 2007 was $667,000 for restructuring and impairment charges related to the March 2007 decision to realign the former AMSC Wires and SuperMachines business units into the newly formed AMSC Superconductors business unit. Included in costs and expenses for the year ended March 31, 2006 was a long-lived asset impairment charge of $4,960,000 recorded in the fourth quarter of the year ended March 31, 2006 related to our March 2006 decision to complete the transition of our wire manufacturing operation from 1G to 2G HTS wire. In connection with the completion of our transition from 1G to 2G HTS wire, we also recorded a 1G wire inventory write-down in the year ended March 31, 2006 of $1,591,000, which is included in Costs of revenue product sales and prototype development contracts for that year.

Costs of revenue contract revenue increased to $1,970,000 in the year ended March 31, 2007 from $1,511,000 in the year ended March 31, 2006 due to an increase in contract revenue to $2,420,000 in the year ended March 31, 2007 from $1,712,000 in the year ended March 31, 2006. This increase in contract revenue is attributable to our recently acquired Windtec subsidiary, which contributed an additional $492,000 in contract revenue and $409,000 in costs of revenue-contract revenue in the three months ended March 31, 2007.

Costs of revenue product sales and prototype development contracts decreased by $1,208,000 to $50,730,000 in the year ended March 31, 2007 from $51,938,000 in the year ended March 31, 2006 due to a $10,579,000 decrease in costs of revenue at AMSC Superconductors associated primarily with the lower level of

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externally-funded work performed on the 36.5 MW motor program, partially offset by the cost overruns on this program. There were also lower costs of revenue on the LIPA program as a result of a lower level of work performed compared to the prior year. Included in costs of revenue in the year ended March 31, 2007 was the AMSC Superconductors write-off of $933,000 of inventoried costs related to one of the two SuperVAR synchronous condensers we had planned to ship to a customer. Product sales in the AMSC Power Systems business unit increased to $30,359,000 during the year ended March 31, 2007 from $14,935,000 in the prior year ended March 31, 2006. As a result of the $15,424,000 increase in product sales in the AMSC Power Systems business unit, costs of revenue-product sales increased by $8,980,000 at AMSC Power Systems in the year ended March 31, 2007 compared to the prior year ended March 31, 2006. There was also an additional $391,000 in stock compensation expense recorded during the year ended March 31, 2007 in costs of revenue-product sales and prototype development as a result of our adoption of SFAS No. 123(R) in April 2007.

Research and development

A portion of our R&D expenditures related to externally funded development contracts has been classified as costs of revenue (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:

	For the year ended March 31	
	2007	**2006**
R&D expenses per Consolidated Statements of Operations	$ 17,453,000	$ 14,961,000
R&D expenditures classified as Costs of revenue	24,482,000	29,720,000
R&D expenditures offset by cost-sharing funding	1,505,000	868,000
Aggregated R&D expenses	$ 43,440,000	$ 45,549,000

R&D expenses (exclusive of amounts classified as costs of revenue and amounts offset by cost-sharing funding) increased by $2,492,000 to $17,453,000 in the year ended March 31, 2007 from $14,961,000 in the year ended March 31, 2006 as a result of two factors: a lower percentage of the R&D cost was classified as costs of revenue due to the lower level of funded prototype development contract work in AMSC Superconductors related to the Navy 36.5 MW motor program, and a higher level of internally-funded R&D spending incurred which was focused on 2G wire scale-up efforts. Aggregated R&D expenses, which include amounts classified as costs of revenue and amounts offset by cost-sharing funding, were $43,440,000 and $45,549,000 in the years ended March 31, 2007 and March 31, 2006, respectively. The decrease in the aggregated R&D spending during the year ended March 31, 2007 when compared to the prior year was due primarily to a lower level of externally-funded R&D spending at AMSC Superconductors. The decrease in R&D spending at AMSC Superconductors was partially offset by a $448,000 increase in AMSC Power Systems R&D spending, primarily related to the recently acquired Windtec. In addition, there was $909,000 in stock-based compensation expense classified as R&D expense in the year ended March 31, 2007 in connection with our adoption of SFAS No. 123(R).

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Selling, general, and administrative

A portion of the SG&A expenditures related to externally funded development contracts has been classified as costs of revenue (rather than as SG&A expenses). Additionally, a portion of SG&A expenses was offset by cost-sharing funding. Our SG&A expenditures are summarized as follows:

	For the year ended March 31	
	2007	**2006**
SG&A expenses per Consolidated Statements of Operations	$ 17,894,000	$ 10,989,000
SG&A expenditures classified as Costs of revenue	3,915,000	4,444,000
SG&A expenditures offset by cost-sharing funding	1,415,000	776,000
Aggregated SG&A expenses	$ 23,224,000	$ 16,209,000

SG&A expenses (exclusive of amounts classified as costs of revenue and amounts offset by cost-sharing funding) increased by $6,905,000 to $17,894,000 in the year ended March 31, 2007 from $10,989,000 in the year ended March 31, 2006 primarily as a result of three factors: $2,381,000 in higher stock-based compensation expense in connection with our adoption of SFAS No. 123(R) in April 2006, $1,088,000 in higher professional services and $960,000 related to the amortization of intangible assets and additional Windtec SG&A expenses following the Windtec acquisition in January 2007. Other increases in SG&A expenses were the result of expansion efforts related to sales and service in the Asia Pacific region, increased marketing costs and a higher level of management bonus payouts to AMSC Power Systems employees based on performance goals achieved during the year ended March 31, 2007. Also, as a result of the lower level of funded prototype development contract work in AMSC Superconductors in the year ended March 31, 2007, a lower percentage of the SG&A cost was classified as costs of revenue compared to the prior year. Aggregated SG&A expenses, which include amounts classified as costs of revenue and amounts offset by cost-sharing funding, increased to $23,224,000 for the year ended March 31, 2007 from $16,209,000 for the same period last year primarily as a result of the stock compensation, Windtec acquisition-related amortization and other SG&A expenses noted above.

We present Aggregated R&D and Aggregated SG&A expenses, which are non-GAAP measures, because we believe this presentation provides useful information on our aggregate R&D and SG&A spending and because R&D and SG&A expenses as reported on the Consolidated Statements of Operations 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 revenue rather than as R&D and SG&A expenses, as discussed above.

During the year ended March 31, 2007, we recorded approximately $524,000 in restructuring charges as a result of a restructuring plan announced on March 26, 2007 to consolidate our AMSC Wires, SuperMachines and Power Electronic business segments into two operating segments: AMSC Superconductors and AMSC Power Systems. We consolidated our manufacturing operations by closing one of our two Westborough, Massachusetts facilities, moving operations from that facility into the Devens, Massachusetts plant, and reducing headcount by 37 employees. The restructuring charges included $380,000 for severance, $93,000 to write off the remaining six months of facility lease payments, and $51,000 incurred to relocate employees and equipment to our Devens facility. In addition there was a related $143,000 fixed asset impairment for manufacturing equipment written down to its estimated salvage value. Additional cash payments of $213,000 for severance obligations will be expensed during the quarter ending June 30, 2007 and are expected to be paid out over the six-month period ending September 30, 2007, as a small number of the 37 affected employees remained with us through the end of May 2007 in order to complete ongoing projects. During the year ended March 31, 2006, there were no restructuring charges recorded. As a result of a management decision made in March 2006 to transition from 1G to 2G wire manufacturing and to cease manufacturing the 1G wire, an impairment charge of $4,960,000 was recorded in the quarter ended March 31, 2006. The impairment charge in the year ended March 31, 2006 included a write-down

of 1G equipment of $3,302,000, licenses of $1,220,000 and patents of $438,000.

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Operating income (loss)

	For the year ended March 31	
Operating income (loss)	**2007**	**2006**
AMSC Power Systems	$ 402,000	$ (3,641,000)
AMSC Superconductors	(31,419,000)	(27,549,000)
Unallocated corporate expense	(5,515,000)	(2,297,000)
Total	$ (36,532,000)	$ (33,487,000)

The operating income at AMSC Power Systems was $402,000 during the year ended March 31, 2007 compared to an operating loss of $3,641,000 in the prior year. The improvement was primarily a result of higher gross margins in the year ended March 31, 2007 in connection with the increased level of product sales. We expect amortization expense related to the Windtec acquisitions to increase from $595,000 in the year ended March 31, 2007 to over $4,000,000 in the fiscal year ending March 31, 2008, and there may be additional amortization of intangible assets in the year ending March 31, 2008 resulting from the analysis of the PQS purchase price allocation.

The operating loss at AMSC Superconductors increased to $31,419,000 in the year ended March 31, 2007 compared to $27,549,000 in the prior year as a result of lower revenues and margins related to the 36.5 MW Navy contract during the year ended March 31, 2007. The margin decrease was primarily the result of higher than planned subcontractor spending and an increase in costs related to a delay in the completion and delivery of our 36.5 MW ship propulsion motor into June 2007 resulting in the recognition of a contract loss of $3,105,000 in the year ended March 31, 2007. The 36.5 MW motor program was converted from a cost-plus-incentive-fee contract to a firm-fixed-price contract on April 26, 2006. During the quarter ended December 31, 2006, a crack was discovered in a non-superconductor component of the 36.5 MW motor that required repair. This event caused an unanticipated cost overrun on the Navy 36.5 MW contract that resulted in an estimated loss of approximately $1,616,000 being recorded in the quarter ended December 31, 2006. The crack was fully repaired and reassembly of the motor was completed in February 2007. However, additional technical issues occurred during the initial phase of factory acceptance testing in late February, causing additional delays and cost overruns that led to a $1,489,000 increase in the estimated loss to $3,105,000. The motor successfully passed factory acceptance testing at the end of March 2007 and was delivered to the Navy in June 2007. Cost overruns on this program directly impacted the profitability of this business unit during the year ended March 31, 2007.

In addition to the lower margins related to the 36.5MW motor, AMSC Superconductors wrote off $933,000 of inventoried costs related to one of the two SuperVAR synchronous condensers we had planned to ship to a customer. AMSC Superconductors also recorded restructuring charges of $524,000 and impairment charges of $143,000 during March 2007 as a result of the decision to re-align our former SuperMachines and AMSC Wires business units into the newly formed AMSC Superconductors business unit. These increased costs were partially offset by lower depreciation and amortization expense as a result of the $4,960,000 impairment charge on the 1G asset group (consisting of equipment, patents and licenses) that was recorded during the fourth quarter of the year ended March 31, 2006. We continue to invest in capital equipment for the scale-up of our 344 wire full scale manufacturing line. We expect depreciation expense to increase as we place into service this 2G manufacturing equipment over the next nine months. We expect this business unit to continue to incur operating losses during the next fiscal year ending March 31, 2008 while we continue to invest in the 344 superconductor manufacturing line.

The increase in unallocated corporate expense was due to an increase in stock-based compensation expense, primarily related to our adoption of SFAS No. 123(R) in April 2006.

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Non-operating expenses/Interest income

Interest income decreased to $2,179,000 in the year ended March 31, 2007 from $2,610,000 in the prior year, primarily as a result of the lower cash balances available for investment.

Other income (expense), net was ($424,000) in the year ended March 31, 2007 compared to $0 in the prior year and consisted primarily of a loss on the revaluation of the stock warrant issued in April 2005 to TM Capital Corp., a past financial advisor to us, related to a litigation settlement. The litigation settlement amount of $2,653,000, which consisted of a $1,700,000 cash payment made in April 2005 and a $953,000 accrued liability relating to the warrant issued for 200,000 shares of our common stock, was accrued in the fourth quarter of the year ended March 31, 2005. The accrued warrant cost will continue to be classified as a current liability in accordance with Emerging Issues Task Force (EITF) Issue No. 00-19 until such time as the warrant is exercised or forfeited, and will be marked to market based primarily on the current price and expected volatility of our common stock as of the end of each reporting period. The warrant was valued at $1,354,000 as of March 31, 2007 as compared to the March 31, 2006 warrant valuation of $946,000, resulting in an expense of $408,000 in the year ended March 31, 2007.

During the quarter ended March 31, 2007, we recorded a tax benefit of $101,000 compared to $0 of income tax in the prior year. This tax benefit was primarily the result of changes in the deferred tax liability of our Austrian subsidiary, Windtec, associated with the non-deductible amortization of intangible assets.

Based on our latest operating plan, we expect to continue to incur operating losses through at least the end of the year ending March 31, 2009 as we continue to devote significant financial resources to our commercialization efforts and to our ongoing research and development activities. We anticipate an increase in depreciation associated with the scale-up of our 2G manufacturing line as equipment is placed into service, as well as intangible asset amortization associated with the Windtec and PQS acquisitions.

Please refer to the Risk Factors section of this prospectus for a discussion of certain factors that may affect our future results of operations and financial condition.

Years Ended March 31, 2006 and March 31, 2005

Revenues

Total consolidated revenues decreased to $50,872,000 in the year ended March 31, 2006 from $58,283,000 in the year ended March 31, 2005, a decrease of $7,411,000 or 13%.

	For the year ended March 31,	
Revenues	**2006**	**2005**

AMSC Power Systems	$ 15,001,000	$ 15,664,000
AMSC Superconductors	35,871,000	42,619,000
Total	$ 50,872,000	$ 58,283,000

The decrease in total revenues was primarily the result of lower revenues in our AMSC Superconductors business unit and slightly lower revenues in AMSC Power Systems business unit.

Revenues in the AMSC Power Systems business unit decreased by $663,000 or 4% to $15,001,000 in year ended March 31, 2006 from $15,664,000 in the year ended March 31, 2005. This decrease occurred as a result of a lower level of service and maintenance revenues in the year ended March 31, 2006, which decreased by $706,000 to $617,000 in the year ended March 31, 2006 compared to $1,323,000 in the year ended March 31,

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2005, which included a higher amount of product upgrades. D-VAR/PQ-IVR system sales in the year ended March 31, 2006 increased slightly to $14,317,000 in the year ended March 31, 2006 from $14,107,000 in the year ended March 31, 2005, as a higher volume of system sales to utilities and wind farms was largely offset by lower sales to industrial customers, such as semiconductor manufacturers. Revenues relating to development contracts also decreased to $67,000 in the year ended March 31, 2006 from $234,000 in the year ended March 31, 2005, contributing to the overall decrease in revenues at AMSC Power Systems.

Revenues in our AMSC Superconductors business unit were $35,871,000 in the year ending March 31, 2006, a decrease of $6,748,000 or 16% compared to $42,619,000 in the year ending March 31, 2005. Revenues relating to the 36.5 MW motor program were $20,826,000 in the year ended March 31, 2006 compared to $30,070,000 in the year ended March 31, 2005, a decrease of $9,244,000. This was the result of two factors: the first was a lower level of work performed on the 36.5 MW motor program as a result of the substantial completion of engineering design work and HTS coil fabrication in the prior fiscal year. The second factor contributing to the year ending March 31, 2006 decrease in revenues on the 36.5 MW motor program was a limitation on funding from the Navy at March 31, 2006 which limited the amount of revenue we were able to recognize. Due to this funding limitation, $3,082,000 of program costs incurred in excess of the available funding were recorded as inventory as of March 31, 2006. These program costs were inventoried because future funding sufficient to cover these deferred costs was deemed probable. On April 26, 2006, such funding was received via a contract modification from the Navy which provided an additional $13,344,000 of funding, thereby fully-funding the program at $90,150,000 and converting it from a cost-plus-incentive-fee contract to a firm-fixed-price contract.

Revenues from our HTS wires in our AMSC Superconductors business unit were $14,207,000 in the year ended March 31, 2006 compared to $11,512,000 in the year ended March 31, 2005, an increase of $2,695,000 or 23%. This was driven by a $3,685,000 increase in work performed on the DOE project to install an HTS power cable in the transmission grid of LIPA, partially offset by a $476,000 decrease in contract revenues and a $514,000 decrease in HTS wire sales in the year ended March 31, 2006 compared to the year ended March 31, 2005.

LIPA project revenues increased to $9,684,000 in the year ended March 31, 2006 from $5,999,000 in the year ended March 31, 2005 as a result of the delivery of substantially all of the 1G HTS wire required for the project in the second and third quarters of the year ended March 31, 2006. Contract revenues decreased to $1,281,000 in the year ended March 31, 2006 from $1,757,000 in the year ended March 31, 2005, due to a lower level of work performed in the year ended March 31, 2006 on a 2G research contract awarded by the Defense Advanced Research Projects Agency, or DARPA, in June 2004. HTS wire sales (including $147,000 for 2G HTS wire sales in the year ended March 31, 2006) to customers other than LIPA decreased to $3,242,000 in the year ended March 31, 2006 from $3,756,000 in the year ended March 31, 2005, due primarily to a reduction in the average selling price for our 1G HTS wire. We sold approximately 150,000 meters of 1G HTS wire to customers other than LIPA and the U.S. Navy in both years ended March 31, 2006 and 2005. Overall, including wire deliveries to the LIPA cable project and to the 36.5MW motor project, the AMSC Superconductors business unit delivered approximately 331,000 meters (or 205 miles) of 1G HTS wire, and over 2,700 meters of 2G HTS wire in the year ended March 31, 2006, compared to approximately 389,000 meters (or 242 miles) of 1G HTS wire in the prior fiscal year.

Cost-Sharing Funding

In addition to amounts reported as revenues, we also received funding of $1,644,000 in the year ended March 31, 2006 under U.S. government cost-sharing agreements with the U.S. Air Force, DOE, and the Department of Commerce, compared to $2,044,000 in the year ended March 31, 2005, a decrease of $400,000 or 20%. The decline in funding was due to the conclusion early in the year ended March 31, 2006 of a cost-sharing program with the Department of Commerce. All of our cost-sharing agreements provide funding in support of 2G wire development work being done in the AMSC Superconductors business unit. Backlog as of March 31, 2006

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relating to cost-sharing agreements was $5,082,000. As required by government contract accounting guidelines, funding from government cost-sharing agreements is recorded as an offset to research and development and selling, general and administrative expenses, rather than as revenue.

Costs and expenses

Total costs and expenses for the year ended March 31, 2006 were $84,359,000 compared to $78,632,000 for the prior year, a $5,727,000 increase driven primarily by a long-lived asset impairment charge of $4,960,000 recorded in the fourth quarter of the year ended March 31, 2006 related to our March 2006 decision to complete the transition of our wire manufacturing operation from 1G to 2G HTS wire. In connection with the completion of our transition from 1G to 2G HTS wire, we also recorded a 1G wire inventory write-down of $1,591,000, which is included in Costs of revenue product sales and prototype development contracts. Furthermore, we incurred a higher level of internally-funded research and development (R&D) spending in the year ended March 31, 2006 at AMSC Superconductors (particularly on 2G wire development and scale-up activities) and AMSC Power Systems business units. For the year ended March 31, 2005 selling, general and administrative (SG&A) expenses included a $2,653,000 charge recorded in the fourth quarter related to a litigation settlement with TM Capital Corp., a past financial advisor to us.

Costs of revenue contract revenue decreased to $1,511,000 in the year ended March 31, 2006 from $1,702,000 in the year ended March 31, 2005 as contract revenues decreased slightly to $1,712,000 in the year ended March 31, 2006 from $1,757,000 in the year ended March 31, 2005.

Costs of revenue product sales and prototype development contracts decreased by $4,234,000 to $51,938,000 in the year ended March 31, 2006 from $56,172,000 in the year ended March 31, 2005 due to a $10,018,000 decrease in costs of revenue at AMSC Superconductors as a result of the lower level of work performed on the 36.5 MW motor program. Although revenues in the AMSC Power Systems business unit decreased slightly to $15,001,000 in the year ended March 31, 2006 from $15,664,000 in the year ended March 31, 2005, costs of revenue at AMSC Power Systems increased by $1,900,000 in the year ended March 31, 2006 compared to the year ended March 31, 2005 due to the lower gross margins associated with the mix of product shipped (a higher percentage of our year ended March 31, 2006 product shipments consisted of transformers, capacitor banks, and other peripheral equipment which yield lower gross margins). At the AMSC Superconductors business unit, costs of revenue increased by $3,884,000 in connection with the higher LIPA project sales and a $1,591,000 write-down of a portion of our 1G HTS wire inventory to net realizable value (based on an analysis of existing backlog and anticipated demand for our 1G wire, compared to the available 1G wire supply).

Research and development

A portion of our R&D expenditures related to externally funded development contracts has been classified as costs of revenue (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:

	For the year ended March 31	
	2006	**2005**
R&D expenses per Consolidated Statements of Operations	$ 14,961,000	$ 9,037,000
R&D expenditures classified as Costs of revenue	29,720,000	32,991,000

R&D expenditures offset by cost-sharing funding	868,000	1,276,000
Aggregated R&D expenses	$ 45,549,000	$ 43,304,000

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R&D expenses (exclusive of amounts classified as costs of revenue and amounts offset by cost-sharing funding) increased by $5,924,000 to $14,961,000 in the year ended March 31, 2006 from $9,037,000 in the year ended March 31, 2005 primarily as a result of two factors: a lower percentage of the R&D cost incurred was classified as costs of revenue due to the lower level of funded prototype development contract work in AMSC Superconductors on the 36.5MW motor program and a higher level of internally-funded R&D spending incurred primarily focused on 2G wire development and scale-up activities, as well as higher internally-funded R&D spending at AMSC Power Systems.

Aggregated R&D expenses, which include amounts classified as costs of revenue and amounts offset by cost-sharing funding, increased by $2,245,000 to $45,549,000 in the year ended March 31, 2006 from $43,304,000 in the year ended March 31, 2005, as a result of the aforementioned higher levels of internal R&D expenditures in both business units, partially offset by a lower level of externally-funded R&D spending at AMSC Superconductors. Aggregated R&D expenses were reduced by $2,234,000 in the year ended March 31, 2006 as a result of the deferral of certain program-specific costs in inventory in connection with the March 31, 2006 limitation of funding from the Navy as of March 31, 2006 on the 36.5 MW motor program.

Selling, general, and administrative

A portion of the SG&A expenditures related to externally funded development contracts has been classified as costs of revenue (rather than as SG&A expenses). Additionally, a portion of SG&A expenses was offset by cost-sharing funding. Our SG&A expenditures are summarized as follows:

	For the year ended March 31	
	2006	**2005**
SG&A expenses per Consolidated Statements of Operations	$ 10,989,000	$ 11,721,000
SG&A expenditures classified as Costs of revenue	4,444,000	8,257,000
SG&A expenditures offset by cost-sharing funding	776,000	768,000
Aggregated SG&A expenses	$ 16,209,000	$ 20,746,000

SG&A expenses (exclusive of amounts classified as costs of revenue and amounts offset by cost-sharing funding) decreased by $732,000 to $10,989,000 in the year ended March 31, 2006 from $11,721,000 in the year ended March 31, 2005. This decrease in the year ended March 31, 2006 SG&A expenses was primarily the result of the prior-year charges associated with a $2,653,000 litigation settlement with TM Capital accrued in the fourth quarter of the year ended March 31, 2005 and $520,000 of legal expenses incurred in the year ended March 31, 2005 in connection with the lawsuit. This decrease in SG&A expenses was partially offset by a lower percentage of SG&A expenditures being classified as costs of revenue in connection with the lower level of prototype development contract work in AMSC Superconductors on the 36.5 MW motor project.

Aggregated SG&A expenses, which include amounts classified as costs of revenue and amounts offset by cost-sharing funding, decreased by $4,537,000 to $16,209,000 in the year ended March 31, 2006 from $20,746,000 in the year ended March 31, 2005. In addition to the $2,653,000 cost associated with the TM Capital litigation settlement and $520,000 of legal expenses incurred in connection with the lawsuit in the prior year, the remainder of the decrease in Aggregated SG&A expenses was due primarily to a lower level of management bonus payouts in the year ended March 31, 2006, compared to the year ended March 31, 2005. Also, Aggregated SG&A expenses were reduced by $848,000 in the year ended March 31, 2006 as a result of the deferral of certain program-specific costs to inventory in connection with the limitation of funding from the Navy as of March 31, 2006 on the 36.5 MW motor program.

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Operating profit/(loss)

	For the year ended March 31	
Operating income (loss)	**2006**	**2005**
AMSC Power Systems	$ (3,641,000)	$ 108,000
AMSC Superconductors	(27,549,000)	(15,115,000)
Unallocated corporate expense	(2,297,000)	(5,342,000)
Total	$ (33,487,000)	$ (20,349,000)

AMSC Power Systems incurred an operating loss of $3,641,000 in the year ended March 31, 2006 compared to an operating profit of $108,000 in the year ended March 31, 2005 as a result of several factors: lower revenues; higher R&D spending, particularly on the development of a lower-cost, next-generation power electronic converter which is incorporated into our integrated power quality and reliability solutions; and lower gross margins in the year ended March 31, 2006 in connection with the mix of product shipped (a higher percentage of our year ended March 31, 2006 product shipments consisted of transformers, capacitor banks, and other peripheral equipment which yield lower gross margins).

The operating loss at AMSC Superconductors increased to $27,549,000 in the year ended March 31, 2006 from an operating loss of $15,115,000 in the year ended March 31, 2005 as a result of multiple factors: the long-lived 1G asset impairment charge of $4,960,000 resulting from our March 2006 decision to complete the transition of our HTS wire manufacturing operations from 1G to 2G; a $1,591,000 write-down to net realizable value of a portion of our 1G HTS wire inventory based on an analysis of existing backlog and anticipated demand for our 1G wire, compared to the available 1G wire supply; the higher level of internally-funded R&D spending on 2G wire development and scale-up activities; less manufacturing absorption due to a lower level of 1G HTS wire production beginning in the second quarter of the year ended March 31, 2006; and lower margins on both the 1G wire deliveries to the LIPA cable project as well as on sales of 1G HTS wire to other customers due to the lower average selling price in the year ended March 31, 2006. In addition, AMSC Superconductors incurred a higher operating loss in the year ended March 31, 2006 compared to the year ended March 31, 2005 as a result of the lower level of prototype development contract revenues in the year ended March 31, 2006 and lower fees earned on the 36.5 MW cost-plus-incentive-fee contract as a result of subcontractor cost overruns.

The decrease in unallocated corporate expenses is related mainly to prior-year legal and litigation settlement costs associated with the TM Capital lawsuit.

Non-operating expenses/Interest income

Interest income increased to $2,610,000 in the year ended March 31, 2006 from $807,000 in the year ended March 31, 2005. This increase in interest income primarily reflected higher interest rates available on our investments in the year ended March 31, 2006, compared to the year ended March 31, 2005, as well as the higher cash and investment balances available for investment as a result of our March 2005 public equity offering of 4,600,000 shares of our common stock that generated net proceeds (after deducting underwriting discounts and commissions, but before deducting offering expenses) of $45,540,000. The year ended March 31, 2005 included $35,000 in fees for various legal fees and expenses incurred in connection with a debt financing transaction that we decided not to pursue in August 2003 in favor of a public equity offering, which we completed in October 2003.

Other income (expense), net was $0 in the year ended March 31, 2006 compared to $(82,000) in the year ended March 31, 2005, as the year ended March 31, 2006 foreign currency transaction losses offset a $7,000 gain on the revaluation of the warrant for 200,000 shares of our common stock issued in April 2005 to TM Capital Corp., a past financial advisor to us, related to a litigation settlement. The warrant was valued at $946,000 as of

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March 31, 2006, resulting in a gain of $7,000 for the year ended March 31, 2006, as compared to the March 31, 2005 warrant valuation of $953,000.

Liquidity and Capital Resources

At March 31, 2007, we had cash, cash equivalents and marketable securities of $35,324,000 compared to $65,669,000 at March 31, 2006, a decrease of $30,345,000.

	March 31, 2007	March 31, 2006
Cash and cash equivalents	$ 15,925,000	$ 35,171,000
Marketable securities	19,399,000	30,498,000
Total cash, cash equivalents, and marketable securities	$ 35,324,000	$ 65,669,000

The decrease in cash and cash equivalents to $15,925,000 at March 31, 2007 from $35,171,000 at March 31, 2006 was primarily the result of net cash of $22,761,000 used in operating activities and $10,046,000 for the purchase of capital equipment, partially offset by $11,223,000 net proceeds from the sale of marketable securities and $3,524,000 proceeds from the issuance of common stock.

The principal uses of cash during the year ended March 31, 2007 were a net loss of $34,675,000, a $6,281,000 increase in accounts receivable, and $10,046,000 in capital expenditures, primarily related to the 2G pilot production line. This was partially offset by depreciation and amortization expense of $4,750,000, non-cash stock-based compensation expense of $3,680,000, inventory write-downs of $1,201,000 primarily related to the SuperVAR unit, an increase in accounts payable and accrued expenses of $3,595,000, a decrease in inventory of $1,072,000, and an increase of $2,641,000 in deferred revenue. The increase in accounts receivable was the result of delays in milestone payments on the 36.5 MW motor program and a higher accounts receivable balance at AMSC Power Systems business unit due in part to higher system sales in the month of March 2007. The decrease in inventory relates to the deferred program costs of $3,082,000 inventoried on the 36.5MW project as of the end of March 31, 2006 (due to the funding limitation), compared with deferred program costs of $1,173,000 as of March 31, 2007 related primarily to the LIPA project. We expect cash use to decline significantly in the year ending March 31, 2008 compared to the cash use in the year ended March 31, 2007, as we expect to collect receivables from certain customers (particularly the 36.5 MW motor milestone payments coming due from the Navy of $6,844,000), reduce capital spending as we complete the scale-up for the 344 superconductors pilot plant, and generate a higher level of positive cash flow at AMSC Power Systems compared to prior year in connection with the higher projected level of sales.

We have generated operating losses since our inception in 1987 and expect to continue incurring losses through at least the end of the fiscal year ending March 31, 2009. Operating losses for the years ended March 31, 2007, 2006, and 2005 contributed to net cash used by operating activities of $22,761,000, $19,589,000, and $9,283,000, respectively, for these periods.

Although our cash requirements fluctuate based on a variety of factors, including customer adoption of our products and our research and development efforts to commercialize our products, we believe that our available cash will be sufficient to fund our working capital, capital expenditures, and other cash requirements through at least the end of the year ending March 31, 2009.

We also have an unused line of credit of 685,000 (or approximately $913,000) which is available until August 31, 2007; an amount of 585,000 (or approximately $780,000) is available until June 30, 2010.

In the year ended March 31, 2007, we invested approximately $8,400,000 in the 344 superconductors production line, and we anticipate spending approximately $6,000,000 on this line in the year ended March 31,

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2008. These expenditures are being made to enable us to a) achieve a gross production capacity of approximately 720,000 meters annually of 344 superconductors in December 2007 on our 4 cm manufacturing technology, and b) prepare to migrate to the our 10cm manufacturing technology. We estimate that an additional $28,000,000 to $35,000,000 of capital expenditures would be needed for a full commercial manufacturing operation with a gross capacity of approximately 9 million meters of wire per year.

We have backlog (excluding amounts included in accounts receivable) of approximately $79,500,000 to be received after March 31, 2007 from government and commercial customers, compared to $23,761,000 at March 31, 2006. Backlog represents the value of contracts and purchase orders received, less the revenue recognized to date on those contracts and purchase orders. The $55,739,000 increase in backlog from March 31, 2006 to March 31, 2007 was a result of $83,532,000 in new orders and contracts received during the year ended March 31, 2007 along with acquiring $27,308,000 of incremental backlog associated with the Windtec acquisition, adjusted to exclude the intercompany PowerModule orders already included in backlog. The new orders of $83,532,000 were comprised primarily of $59,961,000 in new system, power converter and Windtec-related (fourth quarter only) orders in our AMSC Power Systems business unit. Also contributing was the government contract modification, which provided $13,344,000 in additional funding on the Navy 36.5 MW motor program, thereby increasing the contract value of the program to $90,150,000 and converting it from a cost-plus-incentive-fee contract to a firm-fixed-price contract on April 26, 2006. The Navy 36.5 MW contract modification specifies a milestone payment plan. We received cash payments of $6,500,000 during the year ended March 31, 2007. We anticipate that we will receive the remaining $6,844,000 over the next two quarters for the milestones associated with the assembly, testing and delivery of the motor to the Navy. The additional new orders added into our backlog during the year ended March 31, 2007 were partially offset by revenues recognized on the 36.5 MW motor program and LIPA cable project, as work continued to progress on these multi-year contracts, which were originally awarded in February and April of 2003, respectively. The current backlog, including $10,503,000 on U.S. government contracts, is subject to certain standard cancellation provisions. Additionally, several of our government contracts are being funded incrementally, and as such, are subject to the future authorization and appropriation of government funding on an annual basis. We have a history of successful performance under incrementally-funded contracts with the government.

Of the backlog amount of $79,500,000 as of March 31, 2007, approximately 75% is billable to and potentially collectable from our customers within the next 12 months.

The possibility exists that we may pursue additional acquisition and joint venture opportunities in the future that may affect liquidity and capital resource requirements.

To date, inflation and foreign exchange have not had a material impact on our financial results.

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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.

Contractual Obligations

As of March 31, 2007, we are committed to make the following payments under contractual obligations:

		Payments due by period			
		Less than			More than
Contractual obligations	**Total**	**1 year**	**1-3 years**	**3-5 years**	**5 years**
Operating leases (rent)	$ 7,766,000	$ 3,068,000	$ 3,809,000	$ 889,000	$
Operating leases (other)	128,000	57,000	71,000		
Purchase obligations (subcontracts)	2,863,000	2,863,000			
Purchase obligations (purchase orders)	28,959,000	28,959,000			
Total contractual cash obligations	$ 39,716,000	$ 34,947,000	$ 3,880,000	$ 889,000	$

New Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, with earlier adoption permitted. We are currently evaluating the provisions of FIN 48.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements . SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with earlier adoption permitted. The provisions of SFAS 157 should be applied prospectively as of the beginning of the fiscal year in which it is initially applied, with limited exceptions. We are currently evaluating the provisions of SFAS 157.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Post retirement Plans, an amendment of SFAS Nos. 87, 88, 106, and 132(R), (SFAS No. 158). This statement requires an employer to recognize in its balance sheet the over-funded or under-funded status of a defined benefit post retirement plan measured as the difference between the fair value of plan assets and

the present value of the benefit obligation. The recognition of the net liability or asset will require an offsetting adjustment to accumulated other comprehensive income in shareholders equity. SFAS No. 158 does not change how postretirement benefits are accounted for and reported in the income statement. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. We do not offer pension or other post retirement plans to our employees and therefore we do not expect the adoption of SFAS No. 158 to have any effect on our financial position or results of operations.

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In September 2006, the SEC issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements expressing the Staff s views regarding the process of quantifying financial statement misstatements. There have been two widely-recognized methods for quantifying the effects of financial statement errors: the roll-over method and the iron curtain method. The roll-over method focuses primarily on the impact of a misstatement on the income statement including the reversing effect of prior year misstatements but its use can lead to the accumulation of misstatements in the balance sheet. The iron-curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. SAB 108 establishes an approach that requires quantification of financial statement errors based on the effects of the error on each financial statement and the related financial statement disclosure. This model is commonly referred to as a dual approach because it essentially requires quantification of errors under both the iron-curtain and the roll-over methods. The provisions of SAB 108 should be applied to annual financial statements covering the first fiscal year ending after November 15, 2006. SAB 108 did not have an impact on our financial statements.

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BUSINESS

Overview

We are a leading energy technologies company, offering an array of solutions based on two proprietary technologies: programmable power electronic converters and high temperature superconductor, or HTS, wires. Our 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 our power electronic converters differentiates them from most competitive offerings. Our HTS wires carry 150 times the electrical current of comparably sized copper wire. The two primary markets we serve are the wind energy market and the power transmission and distribution or power grid market.

The demand for clean and renewable sources of electricity, such as wind energy, and the demand for modernized power grid infrastructure are being driven globally by a variety of factors. These factors include increasing electricity usage, power grid capacity constraints, fossil fuel price volatility, and harmful levels of pollution and greenhouse gases. In addition, our growing digital-based economy demands better power reliability and quality. Concerns about these factors have led to increased spending by corporations and supportive government regulations and initiatives on local, state, national and global levels, including renewable portfolio standards, tax incentives and international treaties.

We conduct our operations through two business units:

AMSC Power Systems. AMSC Power Systems, Power Systems, produces a broad range of products to increase electrical grid capacity and reliability; supplies electrical systems used in wind turbines; sells power electronic products that regulate wind farm voltage to enable their interconnection to the power grid; licenses proprietary wind energy system designs to manufacturers of such systems; and provides consulting services to the wind industry.

AMSC Superconductors. AMSC Superconductors, Superconductors, focuses on the manufacturing of HTS wire and coils; the design and development of HTS products, such as power cables, fault current limiters and motors; and the management of large-scale HTS projects, such as HTS power cable system design, manufacturing and installation.

Competitive Strengths