AMERICAN SUPERCONDUCTOR CORP /DE/
Form 424B4
October 03, 2003
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Filed pursuant to Rule 424(b)(4)

Registration No. 333-108347

PROSPECTUS

4,975,000 Shares

Common Stock

We are offering 4,975,000 shares of our common stock. Our common stock is traded on the NASDAQ National Market under the symbol AMSC . The last reported sale price of our common stock on October 2, 2003 on the NASDAQ National Market was $10.51 per share.

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

	Per Share	Total
Public Offering Price	$9.50	$ 47,262,500
Underwriting Discounts	$0.56	$ 2,786,000
Proceeds, before expenses, to American Superconductor	$8.94	$ 44,476,500

The underwriters have a 30-day option to purchase up to an additional 746,250 shares of common stock from us to cover over-allotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Needham & Company, Inc.

William Blair & Company RBC Capital Markets

The date of this prospectus is October 2, 2003.

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You should rely only on the information contained or incorporated by reference to this prospectus. We have not authorized anyone to provide you with information different from that contained or incorporated by reference to this prospectus. Under no circumstances should the delivery to you of this prospectus or any sale made pursuant to this prospectus create any implication that the information contained in this prospectus is correct as of any time after the date of this prospectus.

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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

Overview

We are a leading electricity solutions company. We develop solutions and manufacture products to dramatically improve the cost, efficiency and reliability of systems that generate, deliver and use electric power. Our products include high temperature superconductor, or HTS, wire for electric power, transportation, medical and industrial processing applications; motors and generators based on our HTS wire for ship propulsion and industrial uses, as well as synchronous condensers for transmission and distribution grid reliability; and advanced power electronic and HTS systems that ensure the quality and reliability of electricity for residential, commercial and industrial end users. Our HTS wire carries direct current, or DC, without any loss of electrical power, resulting in high electrical efficiency. Our HTS wire also conducts more than 140 times the electrical current of copper wire of the same dimensions, which dramatically reduces the size and weight of electrical equipment made with our HTS wire and significantly increases the power throughput of power cables. Our current and planned products are sold or planned to be sold to electric utilities and transmission and distribution grid operators, electrical equipment manufacturers, industrial power users and shipbuilders that utilize electric motors for ship propulsion systems. Our technology and products are backed by an intellectual property portfolio that includes more than 420 patents and patent applications owned by us worldwide and more than 375 patents and patent applications licensed from others worldwide.

Our products, and those sold by others who incorporate our products, can:

- increase the reliability and power transfer capacity of the electricity transmission and distribution power grid;
- improve the quality of electric power delivered to manufacturing plants;
- reduce the manufacturing and operating costs of primary electrical equipment, including motors and generators;
- reduce the size and weight of power cables, motors, generators, and other electric power equipment; and
- conserve energy resources used to produce electricity, such as oil, gas and coal, by more efficiently conducting and converting electricity into useful forms.

We believe there will be significant market demand for our products because of the following factors:

- demand for electric power continues to grow on a global basis;

- the power grids in the U.S. and in many developed nations face severe constraints in adequately and safely delivering the amounts of power demanded by electric power users;

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- power reliability and power quality are increasingly important as economies transition to computerized and digitized systems;
- U.S. domestic policy is now addressing the need to upgrade the transmission and distribution power grid as part of an effective long-term national energy policy; and
- environmental threats from global industrialization and population growth continue to influence nations to encourage environmentally friendly power technologies.

We conduct our operations through three business units:

- AMSC Wires, a developer and manufacturer of HTS wire;
- SuperMachines, a designer and manufacturer of rotating machines based on our HTS wire, including electric motors, generators and synchronous condensers; and
- Power Electronic Systems, a designer and manufacturer of power electronic converters and integrated power electronic systems that increase power grid reliability and throughput and ensure high quality power for industrial manufacturing operations.

Market Overview

We believe a key factor affecting the market for our products and technologies is the need to upgrade the U.S. power grid. The Electric Power Research Institute, or EPRI, has estimated that electricity as a percentage of total energy use in the U.S., which was 25 percent in 1970, has recently reached 40 percent, and will increase to 50 percent by 2020. This large projected increase is being driven in part by growth in the use of computers, the Internet, telecommunications and consumer-based electronic products. Projected growth rates for electric power consumption by these new technologies are far higher than for traditional uses of power, which have historically grown in proportion to the gross domestic product of the U.S. The recent power outage, which occurred on August 14, 2003 across areas of the northeastern U.S. and Canada, has underscored the reliability and capacity deficiencies of the power grid in the U.S. We believe the growth in power consumption and the corresponding need for more reliable and higher quality power will create demand for many of our products.

Our Solutions

We develop and sell integrated power electronic systems commercially today. Currently, we have 18 integrated power electronic systems called D-VAR®, D-VAR Lite and D-SMES, at nine customer locations in the U.S. and Canada that provide voltage stabilization in power grids and that ensure the smooth connection of wind farms to power grids. These transmission reliability systems enable power grids to operate closer to their thermal limits, which in many cases means the existing power grid can carry more power.

We are developing a prototype HTS grid reliability product that we call SuperVAR, which is a dynamic synchronous condenser that we expect to install in the power grid of the Tennessee Valley Authority (TVA) in November 2003. TVA, one of the largest public utilities in the U.S., has given us an order for the first five SuperVAR production units, which we expect to deliver to TVA upon the successful operation of the prototype unit.

We expect that our HTS wire will enable a new class of high capacity, environmentally benign and easy to install transmission and distribution cables that address power grid congestion issues by increasing the thermal limit of existing or new rights of way. We expect that our HTS wire will be utilized in a number of new HTS power cable demonstrations over the next two years. We are currently manufacturing and selling first generation, or 1G, multi-filamentary composite HTS wire primarily to OEM manufacturers that incorporate the wire into prototype power cables, motors and generators. Our strategy is to reduce significantly the cost of manufacturing our HTS wire through the development of our second generation, or 2G, coated conductor composite HTS wire, which we expect will duplicate or exceed 1G HTS wire performance characteristics. We anticipate 2G HTS wire production to commence within the next three to four years.

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We are developing electric motors and generators based on our HTS wire, which are smaller, lighter and more efficient compared with traditional electric motors and generators that utilize copper wire. We delivered a prototype 5 megawatt, or MW, ship propulsion motor to the U.S. Navy in July 2003, and we are currently developing a 36.5 MW ship propulsion motor for delivery to the U.S. Navy in March 2006 under a contract for approximately $70 million.

Corporate Information

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.amsuper.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.

The Offering

Common stock offered	4,975,000 shares
Common stock to be outstanding after this offering	26,359,920 shares
Use of Proceeds	We intend to use the net proceeds for working capital and for general corporate purposes, including the scale-up of pilot manufacturing for our 2G HTS wire.
NASDAQ National 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 August 31, 2003 and excludes (a) options to purchase 5,150,190 shares of common stock outstanding as of August 31, 2003, (b) 880,835 additional shares of common stock available for future issuance under our stock option plans and (c) outstanding warrants to purchase 81,250 shares of common stock.

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Summary Consolidated Financial Data

(in thousands, except per share data)

The following table provides selected financial data for the three years ended March 31, 2003 and the three months ended June 30, 2002 and 2003.

	Fiscal Year Ended March 31,			Three Months Ended June 30,	
	2001	2002	2003	2002	2003
				(unaudited)	
Statement of Operations Data					
Total revenues	$ 16,768	$ 11,650	$ 21,020	$ 2,860	$ 7,756
Total costs and expenses	$ 51,163	$ 73,203	$ 109,532	$ 14,040	$ 16,176
Net loss	$ (21,676)	$ (56,985)	$ (87,633)[1]	$ (10,829)	$ (8,356)
Net loss per common shares (basic and diluted)	$ (1.08)	$ (2.79)	$ (4.21)	$ (0.53)	$ (0.39)
Weighted average number of common shares outstanding (basic and diluted)	20,127	20,409	20,831	20,535	21,344
Other Data					
Research and development expenses	$ 22,832	$ 27,814	$ 21,940	$ 6,217	$ 4,863
Pro forma research and development expenses [2]	$ 28,846	$ 36,882	$ 33,447	$ 8,358	$ 9,903

(1) Net loss for the fiscal year ended March 31, 2003 includes an impairment charge of $39,231 to write down our 1G HTS wire asset group, primarily comprised of the Devens, MA manufacturing facility and capital equipment, to an estimated fair value.

(2) Pro forma research and development expenses is a non-GAAP financial measure that consists of research and development expenses plus research and development expenses related to externally funded development contracts included in costs of revenue, and research and development expenses offset by cost-sharing funding under government contracts. We believe that presenting pro forma research and development expenses provides useful information as to our aggregate research and development spending. Please see page 15 of this prospectus for a reconciliation between research and development expenses and pro forma research and development expenses.

	As of June 30, 2003	
	Actual	As Adjusted
Balance Sheet Data	(unaudited)	
Cash and cash equivalents and long-term marketable securities	$ 12,102	$ 56,078
Working capital	12,299	56,275
Total assets	93,262	137,238
Total liabilities	13,614	13,614
Stockholders equity	79,648	123,624

The as adjusted balance sheet data as of June 30, 2003 gives effect to the sale by us of the 4,975,000 shares of common stock offered under this prospectus, at the public offering price of $9.50 per share, after deducting the underwriting discounts and commissions and the estimated offering expenses payable by us.

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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 continue to incur losses in the future.

We have been principally engaged in research and development activities. We have incurred net losses in each year since our inception. Our net loss for the three months ended June 30, 2003 was $8,356,000 and for the fiscal years ended March 31, 2003, March 31, 2002, and March 31, 2001 was $87,633,000, $56,985,000, and $21,676,000, respectively. Our accumulated deficit as of June 30, 2003 was $281,466,000. We expect to continue to incur operating losses until at least the end of fiscal 2005, and there can be no assurance that we will ever achieve profitability.

We had cash, cash-equivalents and long-term investments totaling $12.1 million at June 30, 2003. We believe, based upon our current business plan, that our existing capital resources, combined with conventional mortgage financing on our Devens, MA manufacturing facility that we believe we could obtain if necessary, will be sufficient to fund our operations until at least June 30, 2004. However, we believe our existing capital resources are insufficient to fund our working capital needs and anticipated losses significantly beyond June 30, 2004. Moreover, it is possible that we may need additional funds to fund our operations even prior to June 30, 2004 if our business does not progress as anticipated. There can be no assurance that such funds will be available, or 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 products are in the early stages of commercialization and testing, while others are still under development. We do not believe any company has yet successfully developed and commercialized significant quantities of HTS wire or wire products. There are a number of technological challenges that we must successfully address to complete our development and commercialization efforts. We also believe that several years of further development in the cable 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 may also need to improve the performance and/or 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. Delays in development, as a result of technological challenges or other factors, may result in the introduction or commercial acceptance of our products later than anticipated.

The commercial uses of superconductor products are very 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. Commercial acceptance of low temperature superconductor (LTS) products, other than for medical magnetic resonance imaging and superconductor magnetic energy storage products, has been significantly limited by the cooling requirements of LTS materials. Even if the technological hurdles currently limiting commercial uses of HTS and LTS

products are overcome, it is uncertain whether a robust commercial market for those new and unproven products will ever develop. It is possible that the market demands we currently anticipate for our HTS and LTS products will not develop and that superconductor products will never achieve widespread commercial acceptance.

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We have limited experience manufacturing our HTS products in commercial quantities, and failure to manufacture our HTS products in commercial quantities at acceptable costs and quality levels could impair our ability to meet customer delivery requirements.

To be financially successful, we will have to manufacture our products in commercial quantities at acceptable costs while also preserving the quality levels we have achieved in manufacturing these products in limited quantities. This presents a number of technological and engineering challenges for us. In particular, we will need to improve the manufacturing yields we are achieving in the initial stage of operation of our new manufacturing plant located in Devens, MA. We cannot make assurances that we will be successful in developing product designs and manufacturing processes that permit us to manufacture our HTS products in commercial quantities at commercially acceptable costs while preserving quality. In addition, we may incur significant unforeseen expenses in our product design and manufacturing efforts. The failure to manufacture a sufficient quantity of HTS wire at acceptable quality levels could impair our ability to meet customer delivery commitments and adversely affect our revenue and cash flow.

We have limited experience in marketing and selling our products, and our failure to effectively market and sell our products could adversely affect our revenue and cash flow.

Our management team has limited experience directing our commercialization efforts, which are essential to our future success. To date, we have only limited experience marketing and selling our products, and there are very few people anywhere who have significant experience marketing or selling superconductor products. Once our products are ready for 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 and unfamiliar 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 motor. For example, we have a marketing and sales alliance with GE Industrial Systems giving GE the exclusive right to offer our Distributed-SMES (D-SMES) and D-VAR® product lines in the United States and South America to utilities and the right to sell industrial Power Quality-Industrial Voltage Restorers (PQ-IVR) to one of GE s global industrial accounts. We also have a distribution agreement with Bridex Technologies Pte, Ltd., a power system solution integrator and technology company in Singapore, whereby Bridex markets and sells our integrated power electronic systems within Asia Pacific markets. By entering into marketing and sales alliances, the financial benefits to us of commercializing our products are dependent on the efforts of others. 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.

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.

As we begin to market and sell our superconductor products, we will face intense 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 products, including Sumitomo Electric Industries, Intermagnetics General, European Advanced Superconductors GmbH, Fujikura, Furukawa Electric, and Innova Superconductor Technology. 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 and LTS technology and developing industry standards. Our SMES products and integrated power electronic products, such as D-VAR®, compete with a variety of other products such as dynamic voltage restorers (DVRs), static VAR compensators (SVCs), static compensators (STATCOMS), flywheels, power electronic converters and battery-based power supply systems. Competition for our PowerModules includes products from Ecostar, Inverpower, SatCon, Semikron and Trace. The HTS motor and generator products that we are developing face

competition from copper wire-based motors and generators,

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and from permanent magnet motors that are being developed. Research efforts and technological advances made by others in the superconductor field 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 high temperature superconductor materials we use or may use in the future to manufacture our 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 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 either to acquire licenses to these patents or to successfully contest the validity of these 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 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.

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 are particularly dependent upon the services of Dr. Gregory J. Yurek, our co-founder and our Chairman of the Board, President and Chief Executive Officer, and Dr. Alexis P. Malozemoff, our Chief Technical Officer. The loss of the services of either of those individuals could significantly damage our business and prospects.

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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 which 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 its audits, the U.S. government may adjust our contract-related costs and fees. No assurances can be given that adjustments arising from government audits and reviews would not have a material adverse effect on our results of operations.

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, settlement expenses and profit on work completed prior to termination. In addition to the right of the U.S. government to terminate its contract with us, U.S. government contracts are conditioned upon the continuing approval by Congress of the necessary spending to honor such contracts. Congress usually appropriates funds for a given program on a fiscal-year basis even though contract performance may take more than one year. Consequently, at the beginning of a major governmental program, the contract is usually not fully funded, and additional monies are normally committed to the contract only if, as and when appropriations are made by Congress for future fiscal years. There can be no assurance 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 significantly affect our ability to obtain future government contracts which could, in turn, seriously harm our ability to develop our technologies and products.

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 a 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.

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

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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.

USE OF PROCEEDS

We estimate the net proceeds to us of this offering to be approximately $44.0 million, based on the public offering price of $9.50 per share, after deducting the underwriting discounts and commissions and the estimated offering expenses payable by us.

We intend to use the net proceeds from this offering primarily for working capital and for general corporate purposes, including the scale-up of pilot manufacturing for our 2G HTS wire.

The amounts actually spent by us for any specific purpose may vary significantly and will depend on a number of factors, including the progress of our commercialization and development efforts. Accordingly, our management has broad discretion to allocate the net proceeds. Pending the uses described above, we intend to invest the net proceeds of this offering in short-term, interest-bearing, investment-grade securities.

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PRICE RANGE OF COMMON STOCK

Our common stock has been quoted on the NASDAQ National 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 National Market for the periods indicated.

	High	Low
Fiscal Year Ended March 31, 2002		
First Quarter	$ 27.90	$ 10.75
Second Quarter	24.50	8.35
Third Quarter	14.00	8.65
Fourth Quarter	13.58	6.50
Fiscal Year Ended March 31, 2003		
First Quarter	8.87	3.85
Second Quarter	6.05	2.65
Third Quarter	4.24	2.10
Fourth Quarter	5.41	3.02
Fiscal Year Ended March 31, 2004		
First Quarter	7.35	3.18
Second Quarter	13.85	4.95
Third Quarter (through October 2, 2003)	11.13	10.37

A recent last reported sale price per share for our common stock on the NASDAQ National Market is set forth on the cover page of this prospectus.

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 June 30, 2003:

- on an actual basis; and
- on an as adjusted basis to reflect the issuance and sale of 4,975,000 shares of our common stock in this offering at the public offering price of $9.50 per share, after deducting the underwriting discounts and commissions and the estimated offering expenses payable by us.

This table excludes 5,393,255 shares of our common stock reserved as of June 30, 2003 for issuance upon exercise of outstanding options and warrants. You should read this table together with our financial statements and accompanying notes and with Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus.

	As of June 30, 2003	
	Actual	As Adjusted
	(in thousands) (unaudited)	
Long-term debt		
Stockholders equity:		
Common stock, $.01 par value; 50,000,000 shares authorized; 21,343,720 shares issued and outstanding, actual; 26,318,720 shares issued and outstanding, as adjusted	$ 213	$ 263
Additional paid-in capital	361,489	405,415
Deferred compensation	(596)	(596)
Accumulated other comprehensive income	8	8
Accumulated deficit	(281,466)	(281,466)
Total stockholders equity	79,648	123,624
Total capitalization	$ 79,648	$ 123,624

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DILUTION

Our net tangible book value as of June 30, 2003 was approximately $73,816,000, or $3.46 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 the 4,975,000 shares of our common stock in this offering, after deducting the underwriting discounts and commissions and the estimated offering expenses payable by us, our net tangible book value at June 30, 2003 would have been approximately $117,792,000 or $4.48 per share. This represents an immediate increase in net tangible book value per share of $1.02 to existing stockholders and an immediate dilution of $5.02 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 June 30, 2003, giving effect to this offering. The following table illustrates this per share dilution to new investors.

Public offering price per share		$ 9.50
Net tangible book value per share as of June 30, 2003	$ 3.46	
Increase in net tangible book value per share attributable to new investors	1.02	
Net tangible book value per share after this offering		4.48
Dilution per share to new investors		$ 5.02

These calculations assume no exercise of stock options and warrants outstanding as of June 30, 2003. As of June 30, 2003, there were options and warrants outstanding to purchase an aggregate of 5,393,255 shares of our common stock at a weighted average exercise price of $15.29 per share.

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SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data presented below for the fiscal years ended March 31, 1999, 2000, 2001, 2002 and 2003 have been derived from our consolidated financial statements that have been audited by PricewaterhouseCoopers LLP, independent accountants. The selected consolidated financial data for the three months ended June 30, 2002 and 2003 and as of June 30, 2003 have been derived from our unaudited consolidated financial statements. In the opinion of our management, such unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our operating results and financial position for such periods and as of such date. Our operating results for the three months ended June 30, 2003 are not necessarily indicative of the results to be expected for the entire fiscal year ending March 31, 2004. 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,					Three Months Ended June 30,	
	1999	2000	2001	2002	2003	2002	2003
			(in thousands, except per share data)			(unaudited)	
Statement of Operations Data							
Revenues:							
Contract revenue	$ 9,238	$ 10,439	$ 3,186	$ 2,111	$ 715	$ 131	$ 356
Product sales and prototype development contracts	2,019	4,674	13,582	9,539	20,305	2,729	7,400
Total revenues	11,257	15,113	16,768	11,650	21,020	2,860	7,756
Costs and expenses:							
Costs of revenue contract revenue	9,225	10,325	3,135	2,101	684	128	335
Cost of revenue product sales and prototype development contracts	2,796	4,369	10,981	17,299	31,518	4,231	8,273
Research and development	10,409	13,206	22,832	27,814	21,940	6,217	4,863
Selling, general and administrative	6,078	6,686	14,215	16,313	16,159	3,464	2,705
Pirelli license costs	-			4,010			
Restructuring charges	-			5,666			
Impairment charge	-				39,231		
Total costs and expenses	28,508	34,586	51,163	73,203	109,532	14,040	16,176
Operating loss	(17,251)	(19,473)	(34,395)	(61,553)	(88,512)	(11,180)	(8,420)
Interest income	1,921	1,871	12,555	4,451	869	371	35
Other income (expense), net	4	4	164	117	10	(20)	29
Net loss	$ (15,326)	$ (17,598)	$ (21,676)	$ (56,985)	$ (87,633)	$ (10,829)	$ (8,356)
Net loss per common share (basic and diluted)	$ (1.01)	$ (1.11)	$ (1.08)	$ (2.79)	$ (4.21)	$ (0.53)	$ (0.39)
Weighted average number of common shares outstanding (basic and diluted)	15,132	15,820	20,127	20,409	20,831	20,535	21,344
Other Data							
Research and development expenses	$ 10,409	$ 13,206	$ 22,832	$ 27,814	$ 21,940	$ 6,217	$ 4,863
Research and development expenditures classified as cost of revenues	7,335	8,412	5,879	8,757	10,997	2,088	4,754
Research and development expenditures offset by cost-sharing funding	1,007	1,014	135	311	510	53	286

Pro forma research and development expenses [1]	$ 18,751	$ 22,632	$ 28,846	$ 36,882	$ 33,447	$ 8,358	$ 9,903

[1] Pro forma research and development expenses is a non-GAAP financial measure that consists of research and development expenses plus research and development expenses related to externally funded development contracts included in costs of revenue, and research and development expenses offset by cost-sharing funding under government contracts. We believe that presenting pro forma research and development expenses provides useful information as to our aggregate research and development spending.

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	As of March 31,					As of June 30,
	1999	2000	2001	2002	2003	2003
			(in thousands)			(unaudited)
Balance Sheet Data						
Cash and cash equivalents and long-term marketable securities	$ 31,572	$ 218,655	$ 160,225	$ 68,200	$ 20,049	$ 12,102
Working capital	30,459	135,681	108,808	36,834	19,407	12,299
Total assets	48,130	248,914	239,927	197,795	101,979	93,262
Total long-term debt						
Stockholders equity	43,958	240,944	227,564	172,166	87,819	79,648

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

American Superconductor Corporation was founded in 1987. We are focused on developing, manufacturing and selling products using two core technologies: HTS wires and power electronic converters for electric power applications. We also assemble superconductor wires and power electronic converters into fully-integrated products, such as HTS ship propulsion motors and dynamic reactive compensation systems, which we sell or plan to sell to end users.

Critical Accounting Policies

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 experiences 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:

- Revenue recognition;
- Long-term inventory and deferred revenue;
- Allowance for doubtful accounts;
- Long-lived assets;
- Inventory accounting;
- Deferred tax assets;
- Goodwill; and
- Acquisition accounting.

Revenue recognition. For certain arrangements, such as contracts to perform research and development and prototype development contracts, we record revenues using the percentage of completion method, measured by the relationship of costs incurred to total estimated contract costs. We follow this method since reasonably dependable estimates of the revenue and costs applicable to various stages of a contract can be made. Since many contracts extend over a long period of time, revisions in cost and funding estimates during the progress of work have the effect of adjusting earnings applicable to prior-period performance in the current period. Recognized revenues and profit or loss are subject to revisions as the contract 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.

We recognize revenue from product sales upon shipment, installation or acceptance, where applicable, provided persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and the collectibility is reasonably assured, or for some programs, on the percentage of completion method of accounting. When other significant obligations remain after products are delivered, revenue is recognized only after such obligations (including buyback provisions) are fulfilled.

Long-term inventory and deferred revenue. Long-term inventory of $3,250,000 represents superconductor magnetic energy storage (SMES) units that were delivered in fiscal 2001 to one of our customers, Wisconsin Public Service Corporation (WPS), for a total purchase price of $3,787,000, less $537,000 recorded as revenue in the quarter ended December 31, 2002. As the sale of these units is subject to certain return and buyback provisions which expire from 2002 to 2009, we are deferring recognition of the revenue related to the remaining $3,250,000 in sales until the applicable buyback provisions lapse. Long-term deferred revenue of $3,250,000 represents the $3,787,000 cash payment received from WPS related to this transaction, less $537,000 recorded as revenue in the

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third quarter of fiscal 2003. The buyback provisions, which are subject to a minimum six-month written notice requirement, began to lapse in the quarter ended December 31, 2002, until which time WPS had the right to return all the units for the full purchase price of $3,787,000. On December 31 of each year after 2002, WPS has the right, subject to a minimum six-month notice requirement, to sell the units back to us at a reduced price. Between January 1, 2003 and the next annual buyback date of December 31, 2003, the repurchase price for the units will be $3,250,000 and that price is further reduced by approximately 12% per year through December 31, 2009. We recorded $537,000 of revenue and an equal amount of cost of revenue in the quarter ended December 31, 2002, as the buyback price transitioned from $3,787,000 to $3,250,000. We also recorded a $537,000 reduction in long-term inventory and long-term deferred revenue.

Allowance for doubtful accounts. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional provisions for bad debt allowances may be required.

Long-lived Assets. We periodically evaluate our long-lived assets for potential impairment under Statement of Financial Accounting Standards (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 over the remaining life of the asset or the primary asset in the asset group. If these projected cash flows are less than the carrying amount, an impairment loss is recognized based on the fair value of the asset or asset group less any costs of disposition. 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. We charge impairments of the long-lived assets to operations if our evaluations indicate that the carrying values of these assets are not recoverable.

In the fourth quarter of fiscal 2003 ended March 31, 2003, we recorded a $39,231,000 impairment charge to write down our first generation (1G) HTS wire asset group, primarily comprised of the Devens, MA manufacturing facility and capital equipment, to an estimated fair value.

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.

Deferred tax assets. We have recorded a full valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we consider future taxable income and tax planning strategies in assessing the need for the valuation allowance, if management were to determine that we would be able to realize deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made.

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Goodwill. Goodwill represents the excess of cost over net assets of acquired businesses that are consolidated. Pursuant to 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 loss analysis, as prescribed by SFAS No. 142. 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 our acquisitions under the purchase method of accounting pursuant to SFAS No. 141, *Business Combinations*. In June 2000, we acquired in a business combination substantially all of the assets of Integrated Electronics, LLC (IE), as well as IE s employees and facility lease. The IE acquisition was accounted for under the purchase method of accounting. Goodwill of $1,329,282 represented the excess of the purchase price of $1,833,125 over the fair value of the acquired assets of $503,843 at June 1, 2000. Goodwill was $1,107,735 at June 30, 2003 and March 31, 2003.

Impairment/Other Charges (Fiscal Year 2003)

For fiscal 2003, we recorded a $39,231,000 impairment charge primarily on our building and equipment assets at our Devens, MA manufacturing facility, in connection with our plans to transition over the next three or four years to a lower cost, second generation (2G) HTS wire manufacturing methodology. The impairment charge was recorded in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

A number of factors indicated a potential impairment of the asset group, including substantial operating losses incurred and projected future losses associated with the AMSC Wires business segment, our intent to transition to the manufacture of 2G HTS wire within the next several years and our market capitalization being less than the net book value for a significant period. In the fourth quarter of fiscal 2003, we revised our analysis of the probable timing of the transition to 2G HTS wire, determining that the transition would be accelerated over previous expectations. The acceleration of the timing of the transition was the principal factor indicating a potential impairment.

In addition, we recorded other charges in March 2003 of $3,421,000 relating to an increase in magnet inventory reserves at our Power Electronic Systems business unit in Wisconsin, which was reported in Costs of revenue product sales and prototype development contracts, and $2,624,000 relating to an increase in the allowance for doubtful accounts to cover a Power Electronics System receivable which was reported under Selling, general, and administrative (SG&A) expense. We are continuing our efforts to collect this receivable.

Restructuring/Pirelli/Other Charges (Fiscal Year 2002)

In March 2002, we announced a series of restructuring, consolidation and cost-cutting measures to create a more streamlined and flatter organization aimed at reducing our cost structure as we drive to commercialize our technologies and products. The restructuring resulted in the reduction of 99 full-time employees across all business functions at our Massachusetts and Wisconsin locations. Our Power Quality and Reliability business unit, based in Middleton, WI, and Power Electronics business unit, based in New Berlin, WI, were combined into a new business unit called Power Electronic Systems. This change leveraged personnel with similar skills in the two business units and significantly reduced the cost structure. As part of the restructuring, we also announced that we will outsource our future requirements for low temperature superconductor (LTS) magnets used in our SMES systems and as a result, we discontinued operations in one of our two buildings in Middleton, WI that compromises approximately 27,000 square feet. Cash payments related to the workforce reduction were substantially completed in the first quarter of fiscal 2003. Exit costs related to the leased facility are being incurred over the 18-month period ending in December 2003. In addition to restructuring charges of $5,666,000 we recorded other charges in March 2002 of $727,000 relating to an increase in allowance for

doubtful accounts, $3,464,000 for a magnet inventory write-down and $4,010,000 relating to a license agreement with Pirelli to allow us to sell our HTS wire to other cable manufacturers in addition to Pirelli.

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Results of Operations

Quarters Ended June 30, 2003 and June 30, 2002

We have three reportable business segments AMSC Wires, SuperMachines, and Power Electronic Systems.

The AMSC Wires business segment develops, manufactures and sells HTS wire. The focus of this segment s current development, manufacturing and sales efforts is on HTS wire for power transmission cables, motors, generators, synchronous condensers and specialty magnets.

The SuperMachines business segment is developing and commercializing electric motors, generators, and synchronous condensers based on HTS wire. Its primary focus for motors and generators is on ship propulsion.

The Power Electronic Systems business segment develops and sells power electronic converters and designs, manufactures and sells integrated systems based on those converters for power quality and reliability solutions and for wind farm applications.

Revenues

Total revenues during the three months ended June 30, 2003 were $7,756,000, a 171% increase compared to the $2,860,000 of revenue recorded for the same period a year earlier.

The increase in consolidated revenues of $4,896,000 was mainly the result of an increase in prototype development contract revenues, primarily relating to work performed on the U.S. Navy s Office of Naval Research 36.5 Megawatt (MW) motor program. Revenues in our SuperMachines business unit increased by $4,014,000 to $5,550,000 for the quarter ended June 30, 2003 from $1,536,000 for the quarter ended June 30, 2002. Approximately 88%, or $4,878,000, of this business unit s first-quarter revenues related to the performance of design work on the 36.5 MW motor program, which began in March 2003. The remainder of SuperMachines revenue related to the completion of work on the 5 MW motor, which was delivered to the U.S. Navy in July 2003, and to work performed on the SuperVAR synchronous condenser prototype being developed for the Tennessee Valley Authority (TVA). SuperMachines revenues in the prior-year quarter were exclusively related to the 5 MW motor program.

Revenues in our AMSC Wires business unit increased by $879,000 to $1,097,000 for the quarter ended June 30, 2003 from $218,000 for the same period of the prior year. The growth in revenues in AMSC Wires in the first quarter of fiscal 2004, compared to the prior-year first quarter, was attributable to two factors. Product sales increased by $654,000 to $741,000 in the quarter ended June 30, 2003 from $87,000 in the prior-year quarter, due to a higher level of 1G wire sales, our first delivery of 2G HTS wire to a customer, and the beginning of work on a project to install an HTS power cable in the transmission grid of the Long Island Power Authority (LIPA). Contract revenues also grew by $225,000 to $356,000 from $131,000 due to a higher level of work performed on two Phase II Small Business Innovation Research (SBIR) grants with the U.S. Department of Energy (DOE) and the National Institutes of Health, both focused on 2G HTS wire development.

Revenues in our Power Electronic Systems business unit were $1,109,000 for the quarter ended June 30, 2003 compared to $1,106,000 for the same period of the prior year. An increase in product sales due to the delivery of one D-VAR® system was offset by a lower level of prototype development contract revenues on our ongoing Power Electronic Building Blocks (PEBB) program with the U.S. Navy.

For the three months ended June 30, 2003, we recorded approximately $313,000 in funding under two government cost-sharing agreements with the U.S. Air Force and the U.S. Department of Commerce. For the three months ended June 30, 2002, we recorded approximately $103,000 of funding under the U.S. Air Force agreement. 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. Funding from government cost-