AMERICAN SUPERCONDUCTOR CORP /DE/
Form 10-Q
February 11, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended: December 31, 2012

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

Commission File Number: 0-19672

American Superconductor Corporation

(Exact name of registrant as specified in its charter)

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

(978) 842-3000
(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Shares outstanding of the Registrant s common stock:

Common Stock, par value $0.01 per share	**57,540,057**
Class	**Outstanding as of February 6, 2013**

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2012	March 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 42,457	$ 46,279
Marketable securities		5,304
Accounts receivable, net	12,328	18,999
Inventory	36,455	29,256
Prepaid expenses and other current assets	26,735	31,444
Restricted cash	9,154	12,086
Deferred tax assets	203	203
Total current assets	127,332	143,571
Property, plant and equipment, net	78,010	90,828
Intangibles, net	2,999	3,772
Restricted cash	4,820	2,540
Deferred tax assets	3,129	3,129
Other assets	9,029	11,216
Total assets	$ 225,319	$ 255,056
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 30,320	$ 37,582
Note payable, current portion, net of discount of $552 as of December 31, 2012	4,063	
Current portion of convertible note, net of discount of $5,448 as of December 31, 2012	7,162	
Derivative liability	5,605	
Adverse purchase commitments	1,799	25,894
Deferred revenue	23,794	19,718
Deferred tax liabilities	3,129	3,129
Total current liabilities	75,872	86,323
Note payable, net of discount of $174 as of December 31, 2012	4,442	
Convertible note net of discount of $1,287 as of December 31, 2012	7,047	
Deferred revenue	1,445	1,558
Deferred tax liabilities	203	203
Other liabilities	1,497	2,093
Total liabilities	90,506	90,177
Commitments and contingencies (Note 13)		
Stockholders equity:		

Common stock	567	520
Additional paid-in capital	913,107	896,603
Treasury stock	(313)	(271)
Accumulated other comprehensive income	1,812	2,027
Accumulated deficit	(780,360)	(734,000)
Total stockholders equity	134,813	164,879
Total liabilities and stockholders equity	$ 225,319	$ 255,056

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

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three months ended December 31,		Nine months ended December 31,	
	2012	**2011**	**2012**	**2011**
Revenues	$ 17,417	$ 18,058	$ 67,000	$ 47,916
Cost and operating expenses:				
Cost of revenues	16,533	18,918	53,843	57,810
Research and development	3,948	5,928	11,480	21,339
Selling, general and administrative	10,769	15,402	36,304	54,952
Restructuring and impairments	6,702	4,092	6,845	8,393
Write-off of advance payment				20,551
Amortization of acquisition related intangibles	81	287	242	891
Total cost and operating expenses	38,033	44,627	108,714	163,936
Operating loss	(20,616)	(26,569)	(41,714)	(116,020)
Change in fair value of derivatives and warrants	5,217		6,114	
Interest (expense) income, net	(4,553)	(11)	(10,191)	232
Other (expense) income, net	(109)	393	(1,252)	1,313
Loss before income tax expense	(20,061)	(26,187)	(47,043)	(114,475)
Income tax expense (benefit)	74	84	(683)	1,185
Net loss	$ (20,135)	$ (26,271)	$ (46,360)	$ (115,660)
Net loss per common share				
Basic	$ (0.38)	$ (0.52)	$ (0.89)	$ (2.28)
Diluted	$ (0.38)	$ (0.52)	$ (0.89)	$ (2.28)
Weighted average number of common shares outstanding				
Basic	52,792	50,933	51,966	50,789
Diluted	52,792	50,933	51,966	50,789

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

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(In thousands)

	Three months ended December 31,		Nine months ended December 31,	
	2012	2011	2012	2011
Net loss	$ (20,135)	$ (26,271)	$ (46,360)	$ (115,660)
Other comprehensive (loss) income, net of tax:				
Foreign currency translation gains (losses)	521	(1,157)	(206)	(2,264)
Unrealized losses on investments	(8)	(17)	(9)	(28)
Total other comprehensive income (loss), net of tax	513	(1,174)	(215)	(2,292)
Comprehensive loss	$ (19,622)	$ (27,445)	$ (46,575)	$ (117,952)

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

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine months ended December 31,	
	2012	**2011**
Cash flows from operating activities:		
Net loss	$ (46,360)	$ (115,660)
Adjustments to reconcile net (loss) to net cash (used in) operations:		
Depreciation and amortization	10,143	10,875
Stock-based compensation expense	5,968	7,697
Write-off of advanced payment to The Switch		20,551
Restructuring charges, net of payments	261	2,721
Impairment of long-lived and intangible assets	4,507	2,829
Provision for excess and obsolete inventory	957	2,150
Adverse purchase commitment losses (recoveries), net	(8,428)	73
Loss on minority interest investments	1,914	1,614
Change in fair value of derivatives and warrants	(6,114)	
Non-cash interest expense	8,404	
Other non-cash items	1,790	613
Changes in operating asset and liability accounts:		
Accounts receivable	6,085	(1,262)
Inventory	(8,173)	(10,419)
Prepaid expenses and other current assets	4,699	3,244
Accounts payable and accrued expenses	(20,330)	(63,554)
Deferred revenue	3,986	5,254
Net cash used in operating activities	(40,691)	(133,274)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(1,259)	(9,332)
Proceeds from the maturity of marketable securities	5,297	110,667
Change in restricted cash	653	(6,036)
Purchase of intangible assets		(3,893)
Purchase of minority investments		(1,800)
Advanced payment for planned acquisition		(20,551)
Change in other assets		(734)
Net cash provided by investing activities	4,691	68,321
Cash flows from financing activities:		
Employee taxes paid related to net settlement of equity awards	(42)	(271)
Repayment of debt	(769)	
Proceeds from the issuance of debt, net of expenses	32,895	
Proceeds from exercise of employee stock options and ESPP	178	150
Net cash provided by (used in) financing activities	32,262	(121)
Effect of exchange rate changes on cash and cash equivalents	(84)	(104)

Net decrease in cash and cash equivalents	(3,822)	(65,178)
Cash and cash equivalents at beginning of period	46,279	123,783
Cash and cash equivalents at end of period	$ 42,457	$ 58,605
Supplemental schedule of cash flow information:		
Cash paid for income taxes, net of refunds	$ (704)	$ 13,482
Issuance of common stock to settle liabilities	10,406	586
Cash paid for interest expense	543	

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

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Business and Basis of Presentation

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

These unaudited condensed consolidated financial statements of the Company have been prepared in accordance with the Securities and Exchange Commission s (SEC) instructions to Form 10-Q. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to those instructions. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. The unaudited condensed consolidated financial statements, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim periods ended December 31, 2012 and 2011 and the financial position at December 31, 2012.

At December 31, 2012, the Company had cash and cash equivalents of $42.5 million. In response to challenging conditions in the wind power market, on November 28, 2012 the Company undertook actions to reduce its global workforce by approximately 25%. In addition, the Company plans to consolidate certain of its office locations. These workforce reductions and planned office consolidations are intended to lower operating costs and enhance liquidity. As of December 31, 2012, the Company had a global workforce of approximately 373 persons.

The Company used $40.7 million in cash for operations during the nine months ended December 31, 2012, compared to $133.3 million during the nine months ended December 31, 2011. The Company expects that its cost reduction efforts will result in a substantial reduction in cash used for operations during the year ending March 31, 2013. The Company plans to closely monitor its expenses and, if required, expects to further reduce operating costs and capital spending to enhance liquidity.

On April 4, 2012, the Company completed a private placement of $25.0 million aggregate principal amount of a 7% senior unsecured convertible note (the Initial Note). On June 5, 2012, the Company entered into a Loan and Security Agreement (the Term Loan), under which the Company borrowed $10.0 million. On December 20, 2012, the Company agreed to exchange the Initial Note for a new unsecured, senior convertible note (the Exchanged Note), which had the same principal amount and accrued interest as the Initial Note at the time of the exchange. See Note 11, Debt , for further information regarding these debt arrangements, including the covenants, restrictions and events of default under the agreements. The Company believes that it is in compliance with the covenants and restrictions included in the agreements governing these debt arrangements as of the date of this Quarterly Report on Form 10-Q.

The Company believes that its available cash, together with additional reductions in operating costs and capital expenditures that it expects to make, if necessary, will be sufficient to fund its operations, capital expenditures and any scheduled cash payments under its debt obligations through December 31, 2013, on the assumption that the Company continues to be able to make installment payments on the Exchanged Note in shares of common stock. The Company s ability to pay required monthly installment payments under the Exchanged Note in equity instead of cash is based on certain stock price and trading volume conditions that are outside of the Company s control. If one or both of these equity conditions are not met (absent a waiver from the lender, which has been provided in the past) the Company may be required to make monthly installment payments in cash. As of the date of this report, the Company has only made payments to the lender in shares of common stock. Should a scenario arise that the Company is required to make future scheduled installment payments entirely in cash, then there may not be sufficient available cash to fund operations, capital expenditures and scheduled cash payments under its other debt obligations through December 31, 2013. Further, the Company s liquidity is highly dependent on its ability to profitably grow revenues through both the acquisition of new customers and growth from its existing customers, fund and maintain compliance with the covenants and restrictions on its debt obligations, and raise additional capital, as required. Potential sources of additional capital include sales of assets and obtaining additional financing (with the agreement of its lenders if required). With respect to sales of assets or additional financing, there can be no assurance that such sales can be completed on acceptable terms or at all or that any financing will be available on commercially acceptable terms or at all.

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The results of operations for an interim period are not necessarily indicative of the results of operations to be expected for the fiscal year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the fiscal year ended March 31, 2012 (fiscal 2011) which are contained in the Company s Annual Report on Form 10-K/A.

2. Stock-Based Compensation

The Company accounts for its stock-based compensation at fair value. The following table summarizes stock-based compensation expense by financial statement line item for the three and nine months ended December 31, 2012 and 2011 (in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2012	2011	2012	2011
Cost of revenues	$ 135	$ 138	$ 518	$ 908
Research and development	627	623	1,781	1,948
Selling, general and administrative	1,167	1,357	3,669	4,841
Total	$ 1,929	$ 2,118	$ 5,968	$ 7,697

During the nine months ended December 31, 2012, the Company granted approximately 857,000 stock options and awarded 1,758,000 shares of restricted stock shares to employees under the 2007 Stock Incentive Plan. In addition the Company issued 158,000 restricted stock units, each of which represents the right to receive one share of common stock, in connection with a severance agreement entered into with one of our former executive officers, and issued approximately 215,000 immediately vested shares of common stock in-lieu of cash bonuses, to employees under the 2007 Stock Incentive Plan. The Company recorded the issuance of stock in-lieu of cash bonuses as a non-cash issuance of stock to settle liabilities in the unaudited consolidated condensed statement of cash flows. The options granted vest upon the passage of time, generally 3 years. For awards that vest upon the passage of time, expense is being recorded over the vesting period.

The estimated fair value of the Company s stock-based awards, less expected annual forfeitures, is amortized over the awards service period. The total unrecognized compensation cost for unvested outstanding stock options was $4.6 million as of December 31, 2012. This expense will be recognized over a weighted average expense period of approximately 1.9 years. The total unrecognized compensation cost for unvested outstanding restricted stock was $5.5 million as of December 31, 2012. This expense will be recognized over a weighted average expense period of approximately 1.5 years.

The weighted-average assumptions used in the Black-Scholes valuation model for stock options granted during the three and nine months ended December 31, 2012 and 2011 are as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2012	2011	2012	2011
Expected volatility	72.4%	79.7%	72.0%	69.7%
Risk-free interest rate	1.0%	1.1%	0.9%	1.8%
Expected life (years)	5.9	5.9	5.9	5.9
Dividend yield	None	None	None	None

The expected volatility rate was estimated based on an equal weighting of the historical volatility of the Company s common stock and the implied volatility of the Company s traded options. The expected term was estimated based on an analysis of the Company s historical experience of exercise, cancellation, and expiration patterns. The risk-free interest rate is based on the average of the five and seven year United States Treasury rates.

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

Basic net (loss) income per share (EPS) is computed by dividing net (loss) income by the weighted-average number of common shares outstanding for the period. Where applicable, diluted EPS is computed by dividing the net (loss) income by the weighted-average number of common shares and dilutive common equivalent shares outstanding during the period, calculated using the treasury stock method. Common equivalent shares include the effect of restricted stock, exercise of stock options and warrants, shares issuable on conversion of debt and contingently issuable shares. For both the three and nine months ended December 31, 2012, 11.8 million shares were not included in the calculation of diluted EPS as they were considered anti-dilutive, of which 2.9 million shares relate to outstanding stock options, 3.2 million shares relate to the issuance of warrants, and 5.7 million shares relate to the convertible feature of the Company s Exchanged Note. For both the three and nine months ended December 31, 2011, 2.4 million shares of common stock underlying outstanding stock options were not included in the calculation of diluted EPS as they were considered anti-dilutive.

The following table reconciles the numerators and denominators of the earnings per share calculation for the three and nine months ended December 31, 2012 and 2011 (in thousands, except per share data):

	Three months ended December 31,		Nine months ended December 31,	
	2012	**2011**	**2012**	**2011**
Numerator:				
Net loss	$ (20,135)	$ (26,271)	$ (46,360)	$ (115,660)
Denominator:				
Weighted-average shares of common stock outstanding	53,745	51,459	52,558	51,120
Weighted-average shares subject to repurchase	(953)	(526)	(592)	(331)
Shares used in per-share calculation basic	52,792	50,933	51,966	50,789
Shares used in per-share calculation diluted	52,792	50,933	51,966	50,789
Net loss per share basic	$ (0.38)	$ (0.52)	$ (0.89)	$ (2.28)
Net loss per share diluted	$ (0.38)	$ (0.52)	$ (0.89)	$ (2.28)

4. Fair Value Measurements

In January 2010, the Financial Accounting Standards Board (FASB) issued guidance related to disclosures of fair value measurements. The guidance requires gross presentation of activity within the Level 3 measurement roll-forward and details of transfers in and out of Level 1 and 2 measurements. It also clarifies two existing disclosure requirements on the level of disaggregation of fair value measurements and disclosures on inputs and valuation techniques. A change in the hierarchy of an investment from its current level will be reflected in the period during which the pricing methodology of such investment changes. Disclosure of the transfer of securities from Level 1 to Level 2 or Level 3 will be made in the event that the related security is significant to total cash and investments. The Company did not have any transfers of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value measurement hierarchy during the three months ended December 31, 2012.

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

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

Level 2 Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that

are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

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

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

The following table provides the assets carried at fair value, measured as of December 31, 2012 and March 31, 2012 (in thousands):

	Total Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012:				
Assets:				
Cash equivalents	$ 23,639	$ 23,639	$	$
Liabilities:				
Derivative liability	$ 1,024	$	$	$ 1,024
Warrants	4,581			4,581

	Total Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2012:				
Assets:				
Cash equivalents	$ 23,485	$ 23,485	$	$
Short-term commercial paper	5,304		5,304	

The table below reflects the activity for the Company s major classes of liabilities measured at fair value for the period ended December 31, 2012 (in thousands):

	Derivative Liability	Warrants
April 1, 2012	$	$
Valuation of original derivative liability	3,779	
Warrant issuance with Senior Convertible Note		7,018
Warrant issuance with Senior Secured Term Loan		380
Valuation of derivative liability attributable to modification	542	
Mark to market adjustment	(3,297)	(2,817)
Balance at December 31, 2012	$ 1,024	$ 4,581

Valuation Techniques

Cash Equivalents

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

Marketable Securities

Marketable securities consist primarily of government-backed securities and commercial paper and are measured using such inputs as quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset (for example, interest rates and yield curves observable at commonly quoted intervals), and inputs that are derived principally from or corroborated by

observable market data by correlation or other means, and are classified within Level 2 of the

valuation hierarchy. The Company s marketable securities generally have maturities of greater than three months from original purchase date but less than twelve months from the date of the balance sheet. The Company determines the appropriate classification of its marketable securities at the time of purchase and re-evaluates such classification as of each balance sheet date. All marketable securities are considered available-for-sale and are carried at fair value. The Company periodically reviews the realizability of each short-term and long-term marketable security when impairment indicators exist with respect to the security. If an other-than-temporary impairment of value of the security exists, the carrying value of the security is written down to its estimated fair value.

Derivative Liability

The Company has identified all of the derivatives (Derivative Liability) associated with the Exchanged Note which include holder change of control redemption rights, issuer optional redemption rights, sale redemption rights and a feature to convert the Exchanged Note into equity at the holder s option. The Derivative Liability is subject to revaluation at each balance sheet date, and any change in fair value will be recorded as a change in fair value in other income (expense) until the earlier of its exercise or expiration. The Company relies on assumptions in a lattice model to determine the fair value of Derivative Liability. The Company has appropriately valued the Derivative Liability within Level 3 of the valuation hierarchy. See Note 11, Debt , for discussion on the Exchanged Note, Derivative Liability and valuation assumptions used.

Warrants

Warrants were issued in conjunction with the Initial Note and the Term Loan. See Note 11, Debt, for additional information on warrants. These warrants are subject to revaluation at each balance sheet date, and any change in fair value will be recorded as a change in fair value in other income (expense) until the earlier of their exercise or expiration.

The Company relies on various assumptions to determine the fair value of warrants. The Company has appropriately valued the warrants within Level 3 of the valuation hierarchy. See Note 12, Warrants and Derivative Liabilities, for a discussion of the warrants and the valuation assumptions used.

5. Accounts Receivable

Accounts receivable at December 31, 2012 and March 31, 2012 consisted of the following (in thousands):

	December 31, 2012	March 31, 2012
Accounts receivable (billed)	$ 11,424	$ 16,240
Accounts receivable (unbilled)	914	2,811
Less: Allowance for doubtful accounts	(10)	(52)
Accounts receivable, net	$ 12,328	$ 18,999

6. Inventory

The components of inventory at December 31, 2012 and March 31, 2012 are as follows (in thousands):

	December 31, 2012	March 31, 2012
Raw materials	$ 10,750	$ 9,962
Work-in-process	3,576	2,390
Finished goods	19,740	14,438
Deferred program costs	2,389	2,466
Net inventory	$ 36,455	$ 29,256

For the three and nine months ended December 31, 2012, the Company recorded an inventory write-down of approximately $0.5 million and $1.0 million, respectively, based on evaluating its ending inventory on hand for excess quantities and obsolescence.

Deferred program costs as of December 31, 2012 and March 31, 2012 primarily represent costs incurred on D-VAR turnkey projects and programs accounted for under contract accounting where the Company needs to complete development programs before revenue and costs will be recognized, respectively.

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7. Prepaid and Other Current Assets

Prepaid and other current assets consisted of the following (in thousands):

	December 31, 2012	March 31, 2012
Non-Trade receivables	$ 495	3,922
Prepaid expenses	2,809	4,707
Prepaid VAT and other taxes	18,613	18,273
Notes receivable	4,765	4,526
Other current assets	53	16
Total	$ 26,735	$ 31,444

8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following (in thousands):

	December 31, 2012	March 31, 2012
Accounts payable	$ 7,207	$ 8,191
Accrued inventories in-transit	2,712	3,330
Accrued miscellaneous expenses	8,494	9,595
Accrued outside services	1,649	113
Accrued subcontractor program costs	1,924	1,885
Accrued compensation	4,208	8,380
Income taxes payable	108	192
Accrued warranty	4,018	5,896
Total	$ 30,320	$ 37,582

Product Warranty

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

Product warranty activity was as follows (in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2012	2011	2012	2011
Balance at beginning of period	$ 4,792	$ 7,055	$ 5,896	$ 7,907
Change in accruals for warranties during the period	(627)	(300)	(1,178)	(774)
Settlements during the period	(147)	(482)	(700)	(860)
Balance at end of period	$ 4,018	$ 6,273	$ 4,018	$ 6,273

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9. Income Taxes

For the three and nine months ended December 31, 2012, the Company recorded income tax expense of $0.1 million and an income tax benefit of $0.7 million, respectively. For the three and nine months ended December 31, 2011, the Company recorded income tax expense of $0.1 million and $1.2 million, respectively. The income tax expense for the three months ended December 31, 2012, was primarily due to income taxes in foreign jurisdictions. The income tax benefit for the nine months ended December 31, 2012 was primarily due to a refund of income taxes paid in China. The Company has provided a valuation allowance against all existing and newly created deferred tax assets as of December 31, 2012, as it is more likely than not that its deferred tax assets are not currently realizable due to the net operating losses incurred by the Company since its inception.

10. Restructuring and Impairments

Restructuring

The Company accounts for charges resulting from operational restructuring actions in accordance with ASC Topic 420, *Exit or Disposal Cost Obligations* (ASC 420) and ASC Topic 712, *Compensation Nonretirement Postemployment Benefits* (ASC 712). In accounting for these obligations, the Company is required to make assumptions related to the amounts of employee severance, benefits, and related costs and the time period over which leased facilities will remain vacant, sublease terms, sublease rates and discount rates. Estimates and assumptions are based on the best information available at the time the obligation arises. These estimates are reviewed and revised as facts and circumstances dictate; changes in these estimates could have a material effect on the amount accrued on the consolidated balance sheet.

During the year ended March 31, 2012, the Company initiated restructuring activities in order to reorganize its global operations, streamline various functions of the business, and reduce its global workforce to better reflect the demand for its products. These activities resulted in the reduction of its global workforce by approximately 50%. During the nine months ended December 31, 2012, the Company initiated further restructuring activities to lower operating costs and enhance liquidity. On November 28, 2012, the Company undertook an action to reduce its global workforce by approximately 25%. As a result, for the three and nine months ended December 31, 2012, the Company incurred restructuring costs of $2.2 million and $2.3 million, respectively. During the three months ended, December 31, 2012, $1.1 million of these additional charges were paid and the remaining balance of accrued restructuring is expected to be paid through December 2013.

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

Three months ended December 31, 2012	**Severance pay and benefits**	**Facility exit costs**	**Total**
Accrued restructuring balance at October 1, 2012	$ 302		$ 302
Charges to operations	2,194		2,194
Cash payments	(1,112)		(1,112)
Accrued restructuring balance at December 31, 2012	$ 1,384	$	$ 1,384
Nine months ended December 31, 2012			
Accrued restructuring balance at April 1, 2012	$ 680	$ 294	$ 974
Charges to operations	2,377	(39)	2,338
Cash payments	(1,673)	(255)	(1,928)
Accrued restructuring balance at December 31, 2012	$ 1,384	$	$ 1,384

All restructuring charges discussed above are included within restructuring and impairments in the Company s unaudited condensed consolidated statements of operations. The Company includes accrued restructuring within accounts payable and accrued expenses in the unaudited condensed consolidated balance sheet.

Impairments

The Company periodically evaluates its long-lived assets consisting principally of fixed assets and amortizable intangible assets for potential impairment. In accordance with the applicable accounting guidance for the treatment of long-lived assets, the Company reviews the carrying value of its long-lived assets or asset group that is held and used, including intangible assets subject to amortization, for impairment whenever events and circumstances indicate that the carrying value of the assets may not be recoverable. Under the held and used approach, the asset or asset group to be tested for impairment should represent the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. The Company evaluates its long-lived assets whenever events or circumstances suggest that the carrying amount of an asset or group of assets may not be recoverable from the estimated undiscounted future cash flows.

In November 2012, in response to challenging conditions in the wind power market, the Company undertook certain restructuring activities, to reduce costs. Since the restructuring action impacted all of the Company s operations, the Company concluded that there were indicators of potential impairment of its long-lived assets, and it therefore conducted an assessment of the recoverability of these assets during the three months ended December 31, 2012 by comparing the carrying value of the assets to the pre-tax undiscounted cash flows estimated to be generated by those assets over their remaining useful lives. Based on the calculation performed by management, the sum of the undiscounted cash flows forecasted to be generated by certain assets within its Grid segment and its Wind segment were less than the carrying value of those assets. In addition, the excess undiscounted cash flows generated by all of its reporting units were insufficient to cover the carrying value of its Corporate assets. Therefore, there was an indication that its Corporate reporting unit, Wind segment and certain of its Grid segment assets were impaired and, as a result, the Company performed additional analysis. An evaluation of the level of impairment was made by comparing the implied fair value of those definite long-lived tangible and intangible assets of its Corporate reporting unit, Wind segment and Grid segment against their carrying values.

The fair values of the impacted property and equipment were based on what the Company could reasonably expect to sell each asset from the perspective of a market participant. The determination of the fair value of its property and equipment includes estimates and judgments regarding the marketability and ultimate sales price of individual assets. The Company utilized market data and approximations from comparable analyses to arrive at the estimated fair values of the impacted property and equipment. The fair values of amortization intangible assets related to completed technology and trade names were determined using primarily the relief-from-royalty method over the estimated economic lives of those assets from the perspective of a market participant. During the three months ended December 31, 2012, the Company determined that certain of its Corporate assets and Grid segment property, plant and equipment were impaired as their carrying values exceeded their fair values. The Company determined the long-lived assets of its Wind segment were not impaired. Accordingly, the Company recorded an aggregate impairment charge of $4.5 million for the three months ended December 31, 2012.

11. Debt

Senior Convertible Notes

On April 4, 2012, the Company entered into a Securities Purchase Agreement with Capital Ventures International (CVI), an affiliate of Heights Capital Management (the Purchase Agreement) and completed a private placement of $25.0 million aggregate principal amount of a 7% unsecured senior convertible note (the Initial Note). After fees and expenses, the net proceeds were $23.2 million. The Initial Note had an initial conversion price of $4.85 per share, representing a premium of approximately 20% over AMSC s closing price on April 3, 2012. The Initial Note was payable in monthly installments beginning four months from issuance and ending on October 4, 2014. Monthly payments were payable in cash or the Company s common stock at the option of the Company, subject to certain trading volume, stock price and other conditions. CVI could have also elected to defer receipt of monthly installment payments at its option. Any deferred installment payments would have continued to accrue interest. The Company registered 10,262,311 shares of common stock which may be used as payment for principal and interest in lieu of cash for resale under the Securities Act as required under a Registration Rights Agreement with CVI.

The Company accounted for the Initial Note as an instrument that has the characteristics of a debt host contract containing several embedded derivative features that would require bifurcation and separate accounting as a derivative instrument pursuant to the provisions of ASC 815. The Company elected not to use the fair value option for the aggregate amount of the Exchanged Note and recorded the liability at its stated value on the date of issuance with no changes in fair value reported in subsequent periods.

The Company has identified the following derivatives associated with the Initial Note: holder change of control redemption rights; issuer optional redemption rights; sale redemption rights and a feature to convert the Initial Note into equity at the holder s option. The Company valued these derivatives at $3.8 million upon issuance of the Initial Note. See Note 12, Warrants and Derivative Liabilities , for additional information regarding derivative liabilities.

In conjunction with the Initial Note, CVI received a warrant to purchase approximately 3.1 million additional shares of common stock exercisable at a strike price of $5.45 per share, subject to adjustment, until October 4, 2017. Due to certain adjustment provisions within the warrant, it qualified for liability accounting and had a fair value of $7.0 million upon issuance. The Company recorded the value as a debt discount and a warrant liability. See Note 12, Warrants and Derivative Liabilities , for additional information regarding the warrant.

The process of valuing financial and derivative instruments utilizes facts and circumstances as of the measurement date as well as certain inputs, assumptions, and judgments that may affect the estimated fair value of the instruments. Upon issuance of the Initial Note, the Company determined the initial carrying value of the Initial Note to be $25.0 million. In addition, the Company also incurred $1.8 million of legal and origination costs as of the nine months ended December 31, 2012, which have been recorded as a discount on the Initial Note.

On December 20, 2012, the Company entered into an Amendment and Exchange Agreement, (the Amendment) with CVI, which amended the Purchase Agreement. Pursuant to the Amendment, the Company and CVI exchanged the Initial Note for a new unsecured, senior convertible note, (the Exchanged Note). At the time of the exchange, the Exchanged Note had the same principal amount and accrued interest as the Initial Notes. The Exchanged Note is convertible into the Company s common stock and has the same scheduled monthly installment payments as the Initial Note. The Exchanged Note provides the Company with additional flexibility to make monthly installment payments in shares of the Company s common stock. The Company retains the ability to repay the Exchanged Note in cash. Specifically, the amendments to the Exchanged Note:

- Allow the Company to convert, subject to the satisfaction of certain conditions set forth in the Exchanged Note, (a) at least $2.5 million of the approximately $5.3 million installment amount payable with respect to the January 2013 installment date (including approximately $4.2 million of deferred installment amounts from the period September 4, 2012 to December 3, 2012) into shares of the Company s common stock, (On December 21, 2012 the Company converted $3.8 million in deferred installment amount principal and interest and issued 1,715,443 shares of common stock), and (b) the balance of the January 2013 installment amount in equal amounts on each of the February and March 2013 installment dates;

- Reduce the price failure equity condition with respect to a particular date of determination from $2.50 to $1.00;

- Reduce the aggregate daily dollar trading volume equity condition required for at least 25 of the 30 consecutive trading days immediately preceding a date of determination from $1,500,000 to $850,000 per trading day. In addition, if the aggregate daily dollar trading volume is between $50,000 and $850,000, the Company may still convert into common stock a portion of an installment amount payable with respect to an installment date equal to the quotient of (x) the aggregate daily dollar trading volume, divided by (y) $850,000;

- Increase CVI s beneficial ownership limitation under the Exchanged Note from 4.99% to 9.99%; and

- Reduce the conversion price, from $4.85 per share of the Company s common stock to $3.19 per share of the Company s common stock, subject to certain price-based and other anti-dilution adjustments.

The Company assessed the changes in the Exchanged Note and accounted for it as a modification of the Initial Note. Therefore, the Company determined the incremental value of the derivative instruments as a result of the Exchanged Note having a reduced conversion price. As a result of the re-valuation, the Company recorded a $0.5 million increase in the value of the derivative liability and additional debt discount. At the modification date, the value of the derivative liability was $1.5 million. The total debt discount, including the embedded derivatives in the Initial Note, the incremental value of embedded derivatives in the Exchanged Note, warrant and legal and origination costs of $13.1 million is being amortized into interest expense over the term of the Exchanged Note using the effective interest method. Under this method, interest expense is recognized each period until the debt instruments reach maturity. If the maturity of the Exchanged Note is accelerated because of prepayment, then the amortization will be accelerated. During the three and nine months ended December 31, 2012, the Company recorded non-cash interest expense for amortization of the debt discount related to the convertible notes of $2.2 million and $6.4 million, respectively.

Provided certain equity conditions are met, the Company may elect to repay principal and interest in shares of the Company s common stock. If the Company elects to make a payment in shares of the Company s common stock, the number of shares to be issued is determined by dividing the amount of such payment by 85% of the lesser of the average volume-weighted average price (VWAP) of the 10 consecutive days immediately preceding the payment date or the VWAP price on the day preceding the payment date (the Market Price). On December 20, 2012 the Company paid approximately $3.8 million in principal and interest by issuing 1,715,443 shares of the Company s common stock. The Company records the difference between the closing price of its common stock on the day preceding the payment date and the Market Price as a discount on the fair value of its shares. During the three and nine months ended December 31, 2012, the Company recorded $1.5 million of non-cash interest expense related to installment payments made by issuing the Company s common stock at a discount.

The Exchanged Note and Purchase Agreement contains certain covenants and restrictions, including, among others, that for so long as the Exchanged Note is outstanding, the Company will not incur any indebtedness (other than permitted indebtedness under the Exchanged Note), permit liens on its properties (other than permitted liens under the Exchanged Note), make payments on junior securities or declare dividends. The Exchanged Note also contains limitations on the transfer of certain assets. Events of default under the Exchanged Note include failure to pay principal or interest as due on the Exchanged Note, failure to deliver registered shares of common stock upon the holders request for conversion of part or all of the Exchanged Note, failure to maintain the Company s common stock eligible for trading on defined markets, cross defaults to other material indebtedness, receipt of uninsured judgments against the Company in excess of defined limits and other administrative covenants, including the Term Loan discussed below, as defined in the Exchanged Note and related documentation. Upon an event of default, the holders may require the Company to redeem all or any portion of the outstanding principal amount of the Exchanged Note in cash plus a penalty as specified in the agreement. Also, if the Company fails to maintain an effective registration statement covering common stock to be used in settling obligations under the Exchanged Note, the Company will be required to pay a penalty as specified in the agreement.

In addition, on October 4, 2012, the Company had the right to issue an additional $15 million aggregate principal amount of convertible notes and warrant to the same investor, subject to certain conditions. Because the Company did not meet these conditions, it no longer has the right to compel the investor to purchase additional convertible notes on the terms contained in the agreement.

Senior Secured Term Loan

On June 5, 2012, the Company entered into a Term Loan with Hercules Technology Growth Capital, Inc. (Hercules), under which the Company borrowed $10.0 million (the Term Loan). After the closing fees and expenses, the net proceeds to the Company were $9.7 million. The Term Loan bears an interest rate equal to 11% plus the percentage, if any, by which the prime rate as reported by The Wall Street Journal exceeds 3.75%. The Company made interest-only payments from July 1, 2012 through October 31, 2012, after which the Company repays the loan in equal monthly installments ending on December 1, 2014. The Term Loan is secured by substantially all of the Company s existing and future assets, including a mortgage on real property owned by the Company s wholly-owned subsidiary, ASC Devens LLC, and located at 64 Jackson Road, Devens, Massachusetts. In addition, Hercules received a warrant to purchase 139,276 shares of common stock, exercisable at an initial strike price of $3.59 per share, subject to adjustment, until December 5, 2017. Due to certain adjustment provisions within the warrant, it qualified for liability accounting and the fair value of $0.4 million was recorded upon issuance, which the Company recorded as a debt discount and a warrant liability. See Note 12, Warrants and Derivative Liabilities , for a discussion on warrants and the valuation assumptions used. The Company will pay an end of term fee of $0.5 million upon the earlier of maturity or prepayment of the loan. The Company has accrued this as of the nine months ended December 31, 2012 and recorded a corresponding amount into the debt discount. In addition, the Company incurred $0.3 million of legal and origination costs in the nine months ended December 31, 2012, which have been recorded as a debt discount. The total debt discount including the warrant, end of term fee and legal and origination costs of $1.2 million is being amortized into interest expense over the term of the Term Loan using the effective interest method. Under this method, interest expense is recognized each period until the debt instrument reaches maturity. If the maturity of the Term Loan is accelerated because of prepayment, then the amortization will be accelerated. During the three and nine months ended December 31, 2012, the Company recorded non-cash interest expense for amortization of the debt discount related to the Term Loan of $0.2 million and $0.5 million, respectively.

The Term Loan contains certain covenants that restrict the Company s ability to, among other things, incur or assume certain debt, merge or consolidate, materially change the nature of our business, make certain investments, acquire or dispose of certain assets, make guaranties or grant liens on its assets, make certain loans, advances or investments, declare dividends or make distributions or enter into transactions with affiliates. In addition, the Term Loan contains a covenant that requires the Company to maintain a minimum unrestricted cash balance in the United States of at least $10.0 million at the inception of the Term Loan, which decreased starting November 1, 2012 and monthly thereafter by the amount of principal paid. The events of default under the Term Loan include, but are not limited to, failure to pay amounts due, breaches of covenants, bankruptcy events, cross defaults under other material indebtedness and the occurrence of a material adverse effect and/or change in control. In the case of a continuing event of default, the Lender may, among other remedies, declare due all unpaid principal amounts outstanding and any accrued but unpaid interest and foreclose on all collateral granted to the Lender as security under the Term Loan.

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

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Interest expense on the convertible notes and Term Loan for the three and nine months ended December 31, 2012 was $4.6 million and $10.3 million respectively, which included $3.9 million and $8.4 million of non-cash interest expense related to the amortization of the debt discount on the Exchanged Note and Term Loan and payment of the Exchanged Notes in Company common stock at a discount, respectively.

12. Warrants and Derivative Liabilities

On April 4, 2012, the Company entered into a Purchase Agreement for the Initial Note and on December 20, 2012, the Company entered into the Amendment pursuant to which it exchanged the Initial Note and exchanged the Initial Note for the Exchanged Note, as described in Note 11. The Initial Note included a warrant to purchase 3.1 million shares of the Company s common stock. The warrant is exercisable at any time on or after the date that is six months after the issuance of the warrant and entitles CVI to purchase shares of the Company s common stock for a period of five years from the initial date the warrant becomes exercisable at a price equal to $5.45 per share, subject to certain price-based and other anti-dilution adjustments. The warrant may not be exercised if, after giving effect to the conversion, CVI together with its affiliates would beneficially own in excess of 4.99% of the Company s common stock. This percentage may be raised to any other percentage not in excess of 9.99% at the option of CVI, upon at least 61-days prior notice to the Company, or lowered to any other percentage, at the option of CVI, at any time.

The Company accounts for the warrant as a liability due to certain adjustment provisions within the warrant, which requires that it be recorded at fair value. The warrant is subject to revaluation at each balance sheet date and any change in fair value will be recorded as a change in fair value in other income (expense) until the earlier of expiration or its exercise at which time the warrant liability will be reclassified to equity. Following is a summary of the key assumptions used to calculate the fair value of the warrant:

	December 31, 2012	September 30, 2012	June 30, 2012	April 4, 2012
Risk-free interest rate	0.75%	0.63%	0.77%	1.19%
Expected annual dividend yield	0.0%	0.0%	0.0%	0.0%
Expected volatility	80.6%	80.9%	80.8%	80.0%
Term (years)	4.76	5.01	5.28	5.5
Fair Value	$ 4.4 million	$ 7.1 million	$ 8.6 million	$ 7.0 million

The Company recorded a gain for the change in the fair value of the CVI warrant of $2.7 million and $2.6 million to change in fair value of derivatives and warrants in the three and nine months ended December 31, 2012, respectively.

The Company determined certain embedded derivatives issued with the convertible notes required accounting as a liability, which requires they be accounted for as a standalone liability subject to revaluation at each balance sheet date with changes in fair value recorded as change in fair value of derivatives and warrants until the earlier of exercise or expiration.

The terms of the debt modification reduced the conversion price of the Initial Note from $4.85 per share to $3.19 per share in the Exchanged Note. As a result the Company revalued these derivatives pre- and post-modification and recorded the difference of $0.5 million as a debt discount and a derivative liability (see Note 11, Debt). The Company calculated the fair value of the derivative liabilities utilizing an integrated lattice model. The lattice model is an option pricing model that involves the construction of a binomial tree to show the different paths that the underlying asset may take over the option s life. A lattice model can take into account expected changes in various parameters such as volatility over the life of the options, providing more accurate estimates of option prices than the Black-Scholes model. Following is a summary of the key assumptions used to value the convertible notes derivative feature:

	December 31, 2012	Post-modification December 20, 2012	Pre-modification December 20, 2012	September 30, 2012	June 30, 2012	April 4, 2012
Stock Price	$ 2.62	$ 2.95	$ 2.95	$ 4.15	$ 4.68	$ 3.97
Percentage Volume Condition Met	94.5%	94.9%	28.6%	51.0%	75.2%	85.9%
Expected Volatility	73.5%	72.5%	72.5%	70.0%	71.0%	75.0%
Risk Free Rate	0.23%	0.25%	0.25%	0.23%	0.33%	0.44%
Bond Yield	16.5%	16.5%	16.5%	15.0%	16.0%	15.0%
Recovery Rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%

Redeemable	yes	yes	yes	yes	yes	yes
Total Time (years)	1.76	1.79	1.79			