SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

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For The Quarter Ended: June 30, 1997          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 organization or incorporation) | (I.R.S. Employer Identification Number) |

Two Technology Drive
Westborough, Massachusetts 01581
(Address of principal executive offices, including zip code)

(508) 836-4200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| | |
|---|---|
| Common Stock, par value $.01 per share | 11,662,790 |
| Class | Outstanding as of August 12, 1997 |

AMERICAN SUPERCONDUCTOR CORPORATION

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AMERICAN SUPERCONDUCTOR CORPORATION

CONSOLIDATED BALANCE SHEETS

| | June 30, 1997 (unaudited) | March 31, 1997 (unaudited) |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 4,790,111 | $ 584,804 |
| Accounts receivable | 3,155,333 | 3,070,573 |
| Notes receivable | 335,247 | 383,607 |
| Inventory | 3,234,827 | 2,940,656 |
| Prepaid expenses and other current assets | 302,388 | 345,344 |
| Total current assets | 11,817,906 | 7,324,984 |
| Property and equipment: | | |
| Equipment | 10,389,617 | 10,137,721 |
| Furniture and fixtures | 764,848 | 733,794 |
| Leasehold improvements | 1,757,536 | 1,732,215 |
| | 12,912,001 | 12,603,730 |
| Less: accumulated depreciation | (9,331,525) | (8,835,754) |
| Property and equipment, net | 3,580,476 | 3,767,976 |
| Long-term marketable securities | 12,776,388 | 15,446,106 |
| Other assets | 5,654 | 42,028 |
| Total assets | $28,180,424 | $26,581,094 |

| | June 30, 1997 (unaudited) | March 31, 1997 (unaudited) |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Note payable-line of credit | $ -- | $ 530,000 |
| Accounts payable and accrued expenses | 2,027,811 | 4,283,612 |
| Deferred revenue | 833,973 | 1,519,678 |
| Short-term notes | 315,779 | 673,428 |
| Total current liabilities | 3,177,563 | 7,006,718 |
| Long-term debt | 3,200,538 | 3,073,663 |
| Commitments | -- | -- |
| Stockholders' equity: | | |
| Common stock ($.01 par); 20,000,000 shares authorized and 11,575,266 and 10,505,118 issued and outstanding at June 30, 1997 and March 31, 1997, respectively | 115,753 | 105,051 |
| Additional paid-in capital | 86,413,861 | 76,388,679 |
| Deferred compensation | (25,480) | (25,480) |
| Deferred contract costs | (517,459) | (557,265) |
| Unrealized gain/(loss) on investments | (44,677) | (143,661) |
| Cumulative translation adjustment | (13,566) | (9,892) |
| Accumulated deficit | (64,126,109) | (59,256,719) |
| Total stockholders' equity | 21,802,323 | 16,500,713 |

| | | |
|---|---|---|
| Total liabilities and stockholders' equity | $28,180,424 | $26,581,094 |

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

AMERICAN SUPERCONDUCTOR CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Three Months Ended June 30, 1997 | Three Months Ended June 30, 1996 |
|---|---|---|
| Revenues: | | |
| Contract revenue | $ 1,103,444 | $ 1,321,239 |
| Prototypes and prototype development contracts | 2,165,281 | 1,353,964 |
| Rental revenue | 296,874 | 176,620 |
| Other revenue | 0 | 4,000 |
| Total revenues | 3,565,599 | 2,855,823 |
| Costs and expenses: | | |
| Costs of revenue | 2,938,709 | 2,554,168 |
| Research and development | 1,966,554 | 2,445,772 |
| Selling, general and administrative | 1,507,322 | 1,516,399 |
| Total costs and expenses | 6,412,585 | 6,516,339 |
| Transaction fees | (29,817) | 0 |
| Interest income | 271,963 | 347,261 |
| Interest expense | (75,992) | (92,315) |
| Other income (expense), net | (32,161) | (39,354) |
| Net loss | $(2,712,993) | $(3,444,924) |
| Net loss per common share | $ (0.23) | $ (0.33) |
| Weighted average number of common shares outstanding | 11,570,723 | 10,493,185 |

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

AMERICAN SUPERCONDUCTOR CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Three Months Ended June 30, 1997 | Three Months Ended June 30, 1996 |
|---|---|---|
| Operating activities: | | |
| Net loss | $(2,712,993) | $(3,444,924) |
| Adjustments to reconcile net loss to net cash from operations | | |
| Forgiveness of notes receivable | 0 | 106,744 |
| Depreciation and amortization | 438,566 | 449,529 |
| Loss on disposal of property & equipment | 24,569 | 0 |
| Deferred compensation expense | 0 | 0 |
| Deferred contract costs-warrants | 39,806 | 0 |
| Changes in operating asset and liability accounts: | | |
| Accounts receivable | (625,729) | (822,212) |
| Inventory | 154,435 | 412,266 |
| Prepaid expenses and other current assets | 37,409 | (233,231) |
| Accounts payable and accrued expenses | (3,182,661) | (240,108) |
| Notes payable-line of credit | (875,000) | 0 |
| Deferred revenue | (1,327,822) | (139,620) |
| Total adjustments | (5,316,427) | (466,632) |
| Net cash used by operating activities | (8,029,420) | (3,911,556) |
| Investing activities: | | |
| Notes receivable | (4,830) | (8,622) |
| Repayment of notes receivable | 53,190 | 0 |
| Purchase of property and equipment, net | (352,538) | (513,521) |
| Purchase of long-term marketable securities | (3,000,000) | 0 |
| Sale of long-term marketable securities | 5,768,702 | 1,487,677 |
| Decrease(increase) in other assets | 36,374 | 12,562 |
| Net cash provided by investing activities | 2,500,898 | 978,096 |
| Financing activities: | | |
| Net proceeds from issuance of stock and warrants | 10,035,884 | 93,609 |
| Short-term notes | (357,649) | (51,102) |
| Long-term debt | 63,438 | 595,000 |
| Net cash provided by financing activities | 9,741,673 | 637,507 |
| Net increase (decrease) in cash and cash equivalents | 4,213,151 | (2,295,953) |
| Cash and cash equivalents at beginning of period | 584,804 | 4,261,051 |
| Effect of SI's excluded results | (7,844) | (142,308) |
| Cash and cash equivalents at end of period | $ 4,790,111 | $ 1,822,790 |

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS:

American Superconductor Corporation (the "Company"), which was formed on April 9, 1987, develops and commercializes high temperature superconducting ("HTS") wire, wire products and systems, including current leads, multistrand conductors, electromagnetic coils, and electromagnets and subsystems comprising electromagnetics intergrated with appropriate cooling systems. The focus of the Company's development and commercialization efforts is on electrical equipment for use by electric utilities and industrial users of electrical power. In the area of power quality, the Company is focused on power transmission cables, motors, transformers, generators and fault current limiters. In the area of power quality, the Company is focused on marketing and selling commercial superconducting magnetic energy storage (SMES) devices, on development and commercialization of new SMES products, and on development of power electronic subsystems and engineering services for the power quality marketplace. The Company operates in one business segment.

The Company derives a substantial portion of its revenue from research and development contracts. A significant portion of this contract revenue relates to a development contract with one stockholder, Pirelli Cavi S.p.A.

2. BASIS OF PRESENTATION:

The accompanying consolidated financial statements are unaudited and have been prepared in accordance with generally accepted accounting principles. Certain information and footnote disclosure normally included in the Company's annual consolidated financial statements have been condensed or omitted. The interim consolidated financial statements, in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results for the interim periods ended June 30, 1997 and 1996 and the financial position at June 30, 1997.

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the fiscal year. It is suggested that these interim consolidated financial statements be read in conjunction with the audited consolidated financial statements for the year ended March 31, 1997 which are contained in the Company's Annual Report on Form 10-K for the year ended March 31, 1997.

On April 8, 1997 the Company completed a transaction (the "Merger") in which the Company acquired all the outstanding stock of Superconductivity, Inc. ("SI"). These consolidated financial statements have been prepared following the pooling of interests method of accounting and reflect the combined financial position, operating results and cash flows of the Company and SI as if they had been combined for all periods presented. Prior to the merger, SI's fiscal year-end was December 31. Effective with the merger, SI's year-end was changed to March 31 to conform with the Company's year-end. The March 31, 1997 Consolidated Balance Sheet combines SI's audited balance sheet at December 31, 1996 with the Company's audited balance sheet at March 31, 1997. As a result, SI's cash flow activity for the three months ended March 31, 1997 and 1996 is listed as "Effect of SI's excluded results" on the Consolidated Statement of Cash Flows to account for the difference in the beginning cash and cash equivalents between December 31 and March 31 of each year.

Included in "Costs of Revenue" are research and development expenses of approximately $918,000 and $905,000 for the three months ended June 30, 1997 and 1996, respectively.

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

3. DEFERRED CONTRACT COSTS-WARRANTS:

In March of 1996, the Company entered into a strategic alliance with the Electric Power Research Institute (EPRI). Under this agreement a warrant for 100,000 shares of common stock of the Company was granted and becomes exercisable over the next five years. The Company recorded an increase to additional paid-in capital and a corresponding charge to Deferred Contract Costs of approximately $637,000 in the first quarter ended June 30, 1996. This amount will be expensed over five years. Warrant expense related to this transaction was approximately $40,000 for the quarter ended June 30, 1997.

4. NET LOSS PER COMMON SHARE:

Net loss per common share is computed based upon the weighted average number of common shares outstanding.

5. COST-SHARING AGREEMENTS:

For the three months ended June 30, 1997 the Company received funding of $450,000 under a government cost-sharing agreement with the Department of Energy. This funding was used to directly offset research and development and selling, general and administrative expenses.

6. SUBSEQUENT EVENTS:

On July 31, 1997 the Company completed a transaction in which the Company acquired all the outstanding stock of Applied Engineering Technologies, Ltd. ("AET") in exchange for 68,306 shares of the Company's common stock, valued at approximately $700,000 as of the closing of the acquisition. The Company also assumed approximately $121,000 of AET's liabilities. AET will operate as a division of the Company under the name AET Cryogenics. The transaction will be accounted for under the pooling of interests method.

AMERICAN SUPERCONDUCTOR CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 1997

RESULTS OF OPERATIONS

American Superconductor Corporation's results for the prior-year period have been restated to reflect the acquisition of Superconductivity, Inc. ("SI"), a developer and manufacturer of low temperature superconductor products for the industrial power quality market. American Superconductor Corporation ("the Company") completed the transaction on April 8, 1997, acquiring all of the outstanding stock of SI by means of a merger of a subsidiary of the Company into SI, which is now being operated as a wholly-owned subsidiary of the Company. The transaction was accounted for as a pooling of interests.

Revenues during the three months ended June 30, 1997 were $3,566,000 compared to $2,856,000 for the same period a year earlier. Revenues in the first quarter were positively affected by SI's shipment of its second PQ DC(TM) SMES system to Tinker Air Force Base in Oklahoma in June, 1997.

For the three months ended June 30, 1997, the Company also recorded funding of $450,000 under a government cost-sharing agreement with the Department of Energy ("DOE"). Funding under cost-sharing agreements for the three months ended June 30, 1996 was $71,000. The Company anticipates that a portion of its funding in the future will continue to come from cost-sharing agreements as the Company continues to develop joint programs with government agencies. Funding from government cost-sharing agreements is recorded as an offset to research and development and selling, general and administrative expenses, as required by government contract accounting guidelines, rather than as revenues.

The Company's total operating expenses for the three months ended June 30, 1997 were $6,413,000, compared to $6,516,000 for the same period last year.

Costs of revenue increased to $2,939,000 from $2,554,000 for the same period a year earlier. This increase primarily reflects the costs of revenue associated with SI's shipment of the PQ DC(TM) SMES system to Tinker Air Force Base.

Research and development ("R&D") expenses declined to $1,967,000 during the first quarter from $2,446,000 a year earlier. This decrease was primarily the result of certain R&D expenses that were incurred in the quarter but which have been deferred pending the finalization of two cost-reimbursement R&D contracts with longstanding corporate partners. R&D expenses also declined as a result of certain R&D expenditures that were offset by increased funding received under the DOE cost-sharing agreement. The R&D amounts offset by cost-sharing funding were $232,000 and $36,000 in the first quarter of fiscal years 1998 and 1997, respectively. In addition, certain R&D expenditures related to externally funded development contracts have been classified as costs of revenue (rather than as R&D expenses). R&D expenditures included as costs of revenue for the three-month period ended June 30, 1997 were $918,000 compared to $905,000 for the same period last year.

Selling, general and administrative ("SG&A") expenses for the quarter ended June 30, 1997 were $1,507,000 compared to $1,516,000 for the same period the prior year. This slight decrease was primarily the result of certain SG&A expenditures that were offset by increased funding received under the DOE cost-sharing agreement. The SG&A amounts offset by cost-sharing funding were $218,000 and $35,000 in the first quarter of fiscal years 1998 and 1997, respectively. In addition, certain SG&A expenditures related to externally funded development contracts have been classified as costs of revenue (rather than as SG&A expenses). Such indirect costs included in costs of revenue during the three-month period ended June 30, 1997 were $407,000 compared to $411,000 for the same period last year.

Interest income was $272,000 in the quarter ended June 30, 1997 compared to $347,000 for the same period in the previous year. This decrease primarily reflects lower cash balances available for investment as a result of cash being used to fund the Company's operations and to purchase property and equipment.

The Company expects to continue to incur operating losses for at least the next few years, as it continues to devote significant financial resources to its research and development activities and commercialization efforts.

The Company expects to be party to agreements which, from time to time, may result in costs incurred exceeding expected revenues under such contracts. The Company may enter into such agreements for a variety of reasons including, but not limited to, entering new product application areas, furthering the development of key technologies, and advancing the demonstration of commercial prototypes in critical market applications.

Please refer to the "Future Operating Results" section of the Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1997 for a discussion of certain factors that may affect the Company's future results of operation and financial condition.

AMERICAN SUPERCONDUCTOR CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 1997

## LIQUIDITY AND CAPITAL RESOURCES

At June 30, 1997, the Company had cash, cash equivalents and long-term marketable securities of $17,566,000 compared to $16,031,000 at March 31, 1997. This increase was primarily due to a $10,000,000 equity investment in the Company on April 7, 1997 by a subsidiary of Electricite de France, partially offset by the payment of approximately $4,400,000 related to the investment banking and legal fees associated with the Company's April 8, 1997 acquisition of SI and the retirement of various SI liabilities. The other principal uses of cash during the quarter ended June 30, 1997 were the funding of the Company's operations and the acquisition of capital equipment, primarily for research and development and manufacturing.

The Company believes that several years of further development will be necessary before HTS wires and related products are available for any significant commercial applications. Management believes that revenues from funded development contracts and the sale of prototypes and its cash, cash equivalents and long-term marketable securities and interest thereon should provide adequate funding to meet the Company's cash requirements for its planned operations for the next year, including the needs of the Company's recently-acquired businesses (SI and AET).

To date, inflation has not had a material impact on the Company's financial results.

AMERICAN SUPERCONDUCTOR CORPORATION

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

Exhibit 27.1 Financial Data Schedule

The Company filed a Current Report on Form 8-K dated April 8, 1997, and an Amendment to such report was filed on June 23, 1997. Such Current Report on Form 8-K, as amended, relates to the Company's acquisition of SI and includes the required financial statements related to such acquisition.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN SUPERCONDUCTOR CORPORATION

| | |
|---|---|
| August 14, 1997 | /s/ Roland Lefebvre |
| Date | Roland Lefebvre<br>Secretary |
| August 14, 1997 | /s/ Thomas M. Rosa |
| Date | Thomas M. Rosa<br>Corporate Controller<br>(chief accounting officer) |

5
1000
U.S. DOLLARS

3-MOS
MAR-31-1998
APR-01-1997
JUN-01-1997
1
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12,776
3,155
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