
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**

For The Quarter Ended: September 30, 2004

Commission File Number 0-19672

American Superconductor Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
organization or incorporation)

04-2959321
(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 NO

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES NO

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

Common Stock, par value \$.01 per share
Class

27,830,982
Outstanding as of November 4, 2004

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AMERICAN SUPERCONDUCTOR CORPORATION
CONSOLIDATED BALANCE SHEETS

	September 30, 2004	March 31, 2004
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 26,355,510	\$ 31,241,237
Short-term marketable securities	19,299,694	15,045,419
Accounts receivable, net	4,910,717	8,566,657
Inventory	10,659,050	4,889,394
Prepaid expenses and other current assets	737,003	906,956
Total current assets	61,961,974	60,649,663
Property, plant and equipment:		
Land	4,021,611	4,021,611
Construction in progress - building and equipment	2,353,845	1,506,326
Building	34,102,138	34,102,138
Equipment	40,427,942	40,645,778
Furniture and fixtures	4,165,819	4,168,165
Leasehold improvements	6,269,197	6,269,037
	91,340,552	90,713,055
Less: accumulated depreciation	(37,184,086)	(34,082,036)
Property, plant and equipment, net	54,156,466	56,631,019
Long-term marketable securities	—	6,360,047
Goodwill	1,107,735	1,107,735
Other assets	5,656,263	5,150,492
Total assets	\$ 122,882,438	\$ 129,898,956
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 10,602,853	\$ 11,541,634
Deferred revenue	4,496,569	2,905,792
Total current liabilities	15,099,422	14,447,426
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, \$.01 par value		
Authorized shares-50,000,000; shares issued and outstanding 27,774,902 and 27,614,149 at September 30, 2004 and March 31, 2004, respectively	277,749	276,141
Additional paid-in capital	417,471,459	415,729,441
Deferred compensation	(987,406)	(701,524)
Deferred warrant costs	(28,594)	—
Accumulated other comprehensive loss	(77,152)	(9,337)
Accumulated deficit	(308,873,040)	(299,843,191)
Total stockholders' equity	107,783,016	115,451,530
Total liabilities and stockholders' equity	\$ 122,882,438	\$ 129,898,956

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

AMERICAN SUPERCONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Six Months Ended September 30,	
	2004	2003	2004	2003
	(Unaudited)		(Unaudited)	
Revenues:				
Contract revenue	\$ 459,977	\$ 197,669	\$ 655,172	\$ 553,446
Product sales and prototype development contracts	9,072,760	9,416,684	21,527,641	16,817,214
Total revenues	9,532,737	9,614,353	22,182,813	17,370,660
Costs and expenses:				
Costs of revenue-contract revenue	512,799	186,482	696,947	522,122
Costs of revenue-product sales and prototype development contracts	9,043,884	9,960,116	22,530,062	18,232,905
Research and development	2,047,311	3,111,352	3,636,193	7,974,409
Selling, general and administrative	2,163,816	2,367,594	4,540,824	5,072,442
Total costs and expenses	13,767,810	15,625,544	31,404,026	31,801,878
Operating loss	(4,235,073)	(6,011,191)	(9,221,213)	(14,431,218)
Interest income	159,813	47,538	303,571	82,057
Fees - abandoned debt financing	—	(1,355,934)	(35,193)	(1,355,934)
Other income (expense), net	(8,421)	(16,669)	(77,014)	12,363
Net loss	\$ (4,083,681)	\$ (7,336,256)	\$ (9,029,849)	\$ (15,692,732)
Net loss per common share				
Basic and Diluted	\$ (0.15)	\$ (0.34)	\$ (0.33)	\$ (0.73)
Weighted average number of common shares outstanding				
Basic and Diluted	27,760,281	21,381,882	27,742,476	21,362,905

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

AMERICAN SUPERCONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended September 30,		Six Months Ended September 30,	
	2004	2003	2004	2003
	(Unaudited)		(Unaudited)	
Net loss	\$(4,083,681)	\$(7,336,256)	\$(9,029,849)	\$(15,692,732)
Other comprehensive income (loss)				
Foreign currency translation	(108)	(2,805)	790	(11,964)
Unrealized gains (losses) on investments	49,695	2,581	(68,605)	5,956
Other comprehensive income (loss)	49,587	(224)	(67,815)	(6,008)
Comprehensive loss	\$(4,034,094)	\$(7,336,480)	\$(9,097,664)	\$(15,698,740)

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

AMERICAN SUPERCONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended September 30,	
	2004	2003
	(Unaudited)	
Cash flows from operating activities:		
Net loss	\$ (9,029,849)	\$(15,692,732)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	3,884,101	3,609,038
Loss on disposal of PP&E and abandoned patents	192,720	36,071
Amortization of deferred compensation expense	196,530	119,963
Amortization of deferred warrant costs	5,946	26,646
Stock compensation expense	21,833	19,404
Changes in operating asset and liability accounts :		
Accounts receivable	3,655,940	(959,339)
Inventory-current and long-term	(5,769,656)	1,976,648
Prepaid expenses and other current assets	170,731	(65,305)
Accounts payable and accrued expenses	(938,781)	1,326,206
Deferred revenue - current and long-term	1,590,777	(912,847)
Net cash used in operating activities	(6,019,708)	(10,516,247)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(891,463)	(1,106,582)
Proceeds from the sale of property, plant and equipment	55,500	31,935
Purchase of marketable securities	(18,268,209)	—
Proceeds from the sale of marketable securities	20,305,376	523,260
Increase in other assets	(1,272,064)	(391,283)
Net cash used in investing activities	(70,860)	(942,670)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	1,204,841	745,391
Net cash provided by financing activities	1,204,841	745,391
Net decrease in cash and cash equivalents	(4,885,727)	(10,713,526)
Cash and cash equivalents at beginning of period	31,241,237	18,487,752
Cash and cash equivalents at end of period	\$ 26,355,510	\$ 7,774,226
Supplemental schedule of cash flow information:		
Noncash issuance of common stock	\$ 218,363	\$ 139,367

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

AMERICAN SUPERCONDUCTOR CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of the Business:

American Superconductor Corporation (the Company or AMSC) was formed on April 9, 1987. The Company is focused on developing, manufacturing and selling products using two core technologies: high temperature superconductor (HTS) wires and power electronic converters for electric power applications. The Company also assembles superconductor wires and power electronic converters into fully-integrated products, such as HTS ship propulsion motors and dynamic reactive compensation systems, which the Company sells or plans to sell to end users. The Company operates in three business segments—AMSC Wires, SuperMachines and Power Electronic Systems.

The Company has generated operating losses since its inception in 1987 and expects to continue incurring losses until at least the end of fiscal 2005. Operating losses for the fiscal years ended March 31, 2004, 2003 and 2002 have contributed to net cash used by operating activities of \$17,421,953, \$39,604,957 and \$26,456,387, respectively, for these periods. For the six months ended September 30, 2004, net cash used by operating activities was \$6,019,708.

The Company had cash, cash equivalents, and short-term marketable securities of \$45,655,204 as of September 30, 2004.

The Company currently derives a portion of its revenue from research and development contracts. The Company recorded contract revenue related to research and development contracts of \$459,977 and \$197,669 for the three months ended September 30, 2004 and 2003, respectively, and \$655,172 and \$553,446 for the six months ended September 30, 2004 and 2003, respectively. In addition, the Company recorded prototype development contract revenue on U.S. Navy and other contracts of \$3,600,352 and \$6,643,755 for the three months ended September 30, 2004 and 2003, respectively, and \$11,073,972 and \$12,193,649 for the six months ended September 30, 2004 and 2003, respectively, which are included under “Revenues – Product sales and prototype development contracts.”

Costs of revenue include research and development (R&D) and selling, general, and administrative (SG&A) expenses that are incurred in the performance of these development contracts.

R&D and SG&A expenses included as costs of revenue for these development contracts were as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2004	2003	2004	2003
	(Unaudited)		(Unaudited)	
R&D expenses	\$ 5,143,865	\$ 6,685,255	\$ 13,967,038	\$ 11,439,342
SG&A expenses	\$ 1,061,954	\$ 1,602,198	\$ 3,063,930	\$ 3,126,851

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2. Basis of Presentation:

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles. The unaudited consolidated financial statements of the Company presented herein have been prepared in accordance with the Securities and Exchange Commission's (SEC) instructions to Form 10-Q and as such do not include all of the information and note disclosures included in annual financial statements 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 September 30, 2004 and 2003 and the financial position at September 30, 2004.

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the fiscal year. The Company suggests that these interim consolidated financial statements be read in conjunction with the audited consolidated financial statements for the fiscal year ended March 31, 2004 which are contained in the Company's Annual Report on Form 10-K covering the fiscal year ended March 31, 2004.

There has been no material change to the Company's significant accounting policies from those described in the Form 10-K for the year ended March 31, 2004.

3. Stock-Based Compensation Plans and Pro Forma Stock-Based Compensation Expense

The Company applies Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock-based compensation plans. Accordingly, no accounting recognition is given to stock options granted at fair market value until they are exercised. Upon exercise, net proceeds, including tax benefits realized, are credited to stockholders' equity.

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation," which sets forth a fair-value-based method of recognizing stock-based compensation expense. As permitted by SFAS No. 123, the Company has elected to continue to apply APB No. 25 to account for its stock-based compensation plans.

Had compensation cost for awards granted after 1994 under the Company's stock-based compensation plan been determined based on the fair value at the grant dates consistent with the method set forth under SFAS No. 123, the effect on certain financial information of the Company would have been as follows:

	For the three months ended September 30,		For the six months ended September 30,	
	2004	2003	2004	2003
Net loss	\$ (4,083,681)	\$ (7,336,256)	\$ (9,029,849)	\$ (15,692,732)
Add: Stock compensation expense under APB 25	101,688	65,961	196,530	119,963
Less: Stock compensation, net of tax, had all options been recorded at fair value per SFAS 123	(1,111,669)	(949,757)	(2,141,296)	(1,899,515)
Pro forma net loss	\$ (5,093,662)	\$ (8,220,052)	\$ (10,974,615)	\$ (17,472,284)
Weighted average shares, basic and diluted	27,760,281	21,381,882	27,742,476	21,362,905
Net loss per share, as reported	\$ (0.15)	\$ (0.34)	\$ (0.33)	\$ (0.73)
Net loss per share, pro forma	\$ (0.18)	\$ (0.38)	\$ (0.40)	\$ (0.82)

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The adjusted amounts include the effects of all activity under the Company's stock-based compensation plans since April 1, 2000. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants:

	For the three months ended September 30,		For the six months ended September 30,	
	2004	2003	2004	2003
Dividend yield	None	None	None	None
Expected volatility	50.18%	100%	44.65%	100%
Risk-free interest rate	3.0%	4.0%	3.0%	4.0%
Expected life (years)	6.5	6.5	6.5	6.5
	For the three months ended September 30,		For the six months ended September 30,	
	2004	2003	2004	2003
Weighted average fair value of options granted at fair market value	\$ 6.42	N/A	\$ 6.68	\$ 2.87

The above amounts may not be indicative of future expense because amounts are recognized over the vesting period and the Company expects it will have additional grants and related activity under these plans in the future.

4. Net Loss Per Common Share:

Basic earnings per share ("EPS") is computed by dividing net income/(loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed using the weighted average number of common shares and dilutive common equivalent shares outstanding during the period. Common equivalent shares include the effect of the exercise of stock options and warrants. For the three months ended September 30, 2004 and 2003, common equivalent shares of 2,483,725 and 3,430,830 were not included in the calculation of diluted EPS as their effect was antidilutive. For the six months ended September 30, 2004 and 2003, common equivalent shares of 2,378,946 and 4,074,330 were not included in the calculation of diluted EPS as their effect was antidilutive.

5. Accounts Receivable:

Accounts receivable at September 30, 2004 and March 31, 2004 consisted of the following:

	September 30, 2004	March 31, 2004
Accounts Receivable (billed)	\$ 2,377,943	\$3,427,482
Accounts Receivable (unbilled)	2,532,774	5,180,524
Less: Allowance for Doubtful Accounts	—	(41,349)
Accounts Receivable, net	\$ 4,910,717	\$8,566,657

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6. Inventories:

Inventories at September 30, 2004 and March 31, 2004 consisted of the following:

	September 30, 2004	March 31, 2004
Raw materials	\$ 478,371	\$ 623,792
Work-in-progress	3,286,776	2,109,794
Finished goods	3,803,271	2,155,808
Deferred program costs	3,090,632	—
	<hr/>	<hr/>
Inventory, net	\$ 10,659,050	\$ 4,889,394

Deferred program costs of \$3,090,632 represent costs incurred in excess of funding as of September 30, 2004 on a program to build a 36.5 megawatt (MW) motor for the U.S. Navy. These costs were recorded as inventory as of September 30, 2004, as future funding was deemed probable. On October 12, 2004, funding in excess of the inventoried cost was received from the Navy, at which time the revenue was recognized and the deferred program costs relieved from inventory in the third quarter of fiscal 2005.

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at September 30, 2004 and March 31, 2004 consisted of the following:

	September 30, 2004	March 31, 2004
Accounts payable	\$ 4,353,897	\$ 4,408,212
Accrued restructuring	93,746	119,493
Accrued employee stock purchase plan	220,434	189,659
Accrued expenses	5,277,695	6,100,914
Accrued vacation	657,081	723,356
	<hr/>	<hr/>
Accounts payable and accrued expenses	\$ 10,602,853	\$ 11,541,634

8. Commitments and Contingencies

Under Delaware law and the Company's By-laws, the Company is required to indemnify its officers and directors for liabilities incurred under certain circumstances. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments the Company could be required to make is unlimited; however, the Company has a Director and Officer insurance policy that limits its indemnification exposure and enables it to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes its indemnification exposure is minimal. These indemnification obligations

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were grandfathered under the provisions of FASB Interpretation No. (FIN) 45 as they were in effect prior to March 31, 2003. Accordingly, the Company has no liabilities recorded under FIN No. 45 as of September 30, 2004.

The Company received notice on November 5, 2003 of a lawsuit filed against it by TM Capital Corp., a past financial advisor to the Company, under which TM Capital claims to be entitled to cash and equity compensation with respect to the Company's October 2003 public equity offering. Specifically, TM Capital is requesting a cash payment in excess of \$1,600,000 and warrants to purchase over 170,000 shares of the Company's common stock at an exercise price of \$9.50 per share. The Company filed an answer to this lawsuit, denying TM Capital's claims for damages and other relief and asserting several counterclaims against TM Capital, including breach of contract, gross negligence and breach of fiduciary duty. The lawsuit is currently in the early stages of discovery. As the Company believes it has meritorious defenses to this lawsuit and the Company cannot at this time conclude that potential losses associated with this litigation are probable or reasonably estimatable based on SFAS No. 5, "Accounting for Contingencies," the Company has not recorded any liability on its balance sheet as of September 30, 2004 nor any expense to its Statement of Operations.

9. Cost-Sharing Arrangements:

The Company has entered into several cost-sharing arrangements with various agencies of the United States government. Funds paid to the Company under these agreements are not reported as revenues but are used to directly offset a portion of the Company's R&D and SG&A expenses, and to purchase capital equipment. The Company recorded costs under these agreements of \$1,046,638 and \$1,399,208 for the three months ended September 30, 2004 and 2003, respectively. For the six months ended September 30, 2004 and 2003, the Company recorded costs of \$2,204,848 and \$2,444,474, respectively. The Company recorded funding under these agreements of \$561,052 and \$446,713 for the three months ended September 30, 2004 and 2003, respectively. For the six months ended September 30, 2004 and 2003, the Company recorded funding of \$1,067,140 and \$759,432, respectively. At September 30, 2004, total funding received inception to date under these agreements was \$17,640,000. Future funding expected to be received under the existing agreements is approximately \$1,004,000, subject to continued future funding allocations.

10. Business Segment Information:

The Company has 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 electromagnets.

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

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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.

The operating results for the three business segments are as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2004	2003	2004	2003
Revenues*				
AMSC Wires	\$ 3,062,418	\$ 2,361,334	\$ 6,396,567	\$ 3,458,458
SuperMachines	3,553,353	6,407,755	10,939,084	11,957,649
Power Electronic Systems	2,916,966	845,264	4,847,162	1,954,553
Total	\$ 9,532,737	\$ 9,614,353	\$ 22,182,813	\$ 17,370,660

*See Note 9. Cost sharing funding is not included in reported revenues.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2004	2003	2004	2003
Operating income (loss)				
AMSC Wires	\$(3,100,805)	\$(4,701,708)	\$(5,989,807)	\$(11,035,383)
SuperMachines	(81,571)	498,303	(378,298)	510,161
Power Electronic Systems	(473,245)	(1,454,825)	(1,822,091)	(3,278,890)
Unallocated corporate expenses	(579,452)	(352,961)	(1,031,017)	(627,106)
Total	\$(4,235,073)	\$(6,011,191)	\$(9,221,213)	\$(14,431,218)

The assets for the three business segments (plus Corporate Cash) are as follows:

	For the period ended	
	September 30, 2003	March 31, 2004
Assets		
AMSC Wires	\$ 62,685,325	\$ 63,554,415
SuperMachines	6,960,848	6,018,468
Power Electronic Systems	7,581,061	7,679,370
Corporate cash and marketable securities	45,655,204	52,646,703
Total	\$ 122,882,438	\$ 129,898,956

The accounting policies of the business segments are the same as those for the consolidated Company, except that certain corporate expenses which the Company does not believe are specifically attributable or allocable to any of the three business segments have been excluded from the segment operating income (loss).

11. New Accounting Pronouncements

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on EITF No. 03-01, "The Meaning of Other-Than Temporary Impairment and its Application to Certain Investments." EITF No. 03-01 addresses disclosures about unrealized losses on available-for-sale debt and equity securities and the evaluation of other-than temporary impairment related to securities accounted for under FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The provisions of EITF No. 03-01 are effective for other-than temporary impairment evaluations and disclosures in fiscal periods beginning after June 15, 2004. The adoption of EITF No. 03-01 had no impact on the Company's financial position or operating results.

AMERICAN SUPERCONDUCTOR CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Overview

We were founded in 1987. We are focused on developing, manufacturing and selling products using two core technologies: high temperature superconductor ("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. Current or prospective customers for our products include electric utilities, electrical equipment manufacturers, industrial power users and commercial and military shipbuilders.

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

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

Our cash requirements depend on numerous factors, including successful completion of our product development activities, ability to commercialize our product prototypes, rate of customer and market adoption of our products and the continued availability of U.S. government funding during the product prototype phase. Significant deviations to our business plan with regard to these factors, which are important drivers to our business, could have a material adverse effect on our operating performance, financial condition, and future business prospects. We expect to pursue the expansion of our operations through internal growth and strategic alliances.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ under different assumptions or conditions.

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

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

Revenue recognition and deferred revenue. For certain arrangements, such as contracts to perform research and development, prototype development contracts and certain product sales, we record revenues using the percentage of completion method, measured by the relationship of costs incurred to total estimated contract costs. We follow this method since reasonably dependable estimates of the revenue and costs applicable to various stages of a contract can be made. However, the ability to reliably estimate total costs at completion is challenging, especially on long-term prototype development contracts, and could result in future changes in contract estimates. Since many contracts extend over a long period of time, revisions in 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. Some of our contracts contain incentive provisions, based upon performance in relation to established targets, which are recognized in the contract estimates when deemed realizable.

We recognize revenue from product sales upon customer acceptance, which can occur at the time of delivery, installation, or post-installation, where applicable, provided persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and the collectibility is reasonably assured. When other significant obligations remain after products are delivered, revenue is recognized only after such obligations are fulfilled. Customer deposits received in advance of revenue recognition are recorded as deferred revenue until customer acceptance is received. Deferred revenue also represents the amount billed to and/or collected from commercial and government customers on contracts which permit billings to occur in advance of contract performance/revenue recognition.

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. The allowance for doubtful accounts was \$0 and \$41,000 on September 30, 2004 and March 31, 2004, respectively.

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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, using a probability-weighted multiple scenario approach, reflecting a range of possible outcomes. 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.

No impairment charges were recorded in fiscal 2004 or the first two quarters of fiscal 2005.

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

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

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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. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax asset would decrease income in the period such determination was made.

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 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.

Results of Operations

The Company has three reportable business segments—SuperMachines, AMSC Wires, and Power Electronic Systems.

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

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 electromagnets.

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 September 30, 2004 were \$9,533,000, a 1% decrease compared to the \$9,614,000 of revenues recorded for the same period a year earlier. For the six months ended September 30, 2004, total revenues were \$22,183,000, a 28% increase over the \$17,371,000 of revenues recorded in the comparable period of the prior year.

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Revenues	For the three months ended		For the six months ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
SuperMachines	\$ 3,553,000	\$ 6,408,000	\$ 10,939,000	\$ 11,958,000
AMSC Wires	3,063,000	2,361,000	6,397,000	3,458,000
Power Electronic Systems	2,917,000	845,000	4,847,000	1,955,000
Total	\$ 9,533,000	\$ 9,614,000	\$ 22,183,000	\$ 17,371,000

The decrease in consolidated revenues of \$81,000 for the quarter ended September 30, 2004 was mainly the result of a \$2,855,000 decline in revenue in the SuperMachines business unit, largely offset by higher revenues in AMSC Wires and Power Electronic Systems.

In the SuperMachines business unit, revenues declined to \$3,553,000 in the quarter ended September 30, 2004 from \$6,408,000 in the same prior-year quarter. Prototype development contract revenues relating to the U.S. Navy 36.5 Megawatt (MW) motor program were constrained by a limitation on funding from the Navy in the quarter ended September 30, 2004. Due to this funding limitation, approximately \$3,100,000 of program costs incurred in excess of available funding were recorded as inventory as of September 30, 2004, because future funding was deemed probable. Incremental funding in excess of the inventoried cost was received from the Navy in mid-October 2004, enabling these inventoried costs to be recognized as revenue in our third fiscal quarter ending December 31, 2004. As work continues to progress on the 36.5 MW motor, the receipt of this incremental funding in October plus additional anticipated funding allotments from the Navy are expected to allow SuperMachines to record substantially higher revenues in the third quarter of fiscal year 2005, compared to the second quarter.

AMSC Wires' revenues increased to \$3,063,000 for the quarter ended September 30, 2004 from \$2,361,000 for the prior-year quarter, an increase of \$702,000 which was driven by \$557,000 in higher HTS wire sales and \$262,000 in higher contract revenues. Wire sales increased to \$1,109,000 in the second quarter of fiscal 2005 from \$552,000 in the same period of the prior year, due to improved manufacturing yields resulting in higher wire shipments, compared to the same prior-year period. Contract revenues increased to \$460,000 from \$198,000, driven by the beginning of work on a second-generation (2G) research contract awarded in June 2004 by the Defense Advanced Research Projects Agency (DARPA). Product sales related to work being performed on the U.S. Department of Energy (DOE) project to install an HTS power cable in the transmission grid of the Long Island Power Authority (LIPA) declined to \$1,494,000 in the second quarter of fiscal 2005 compared to \$1,611,000 in the same quarter of the prior year, as a result of lower subcontractor spending on the program.

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Improved sales of D-VAR systems, in particular to wind farm operators, was the primary reason for the \$2,072,000 increase in Power Electronic Systems revenues to \$2,917,000 in the quarter ended September 30, 2004, compared to \$845,000 in the same prior-year quarter.

For the six-month period ended September 30, 2004, total consolidated revenues were \$22,183,000, an increase of \$4,812,000 or 28% compared to \$17,371,000 of revenues for the same period of the prior fiscal year.

SuperMachines revenues decreased by \$1,019,000 to \$10,939,000 in the six-month period ended September 30, 2004 from \$11,958,000 for the same period last year due to the same Navy limitation of funding reasons as noted above. This decline in SuperMachines revenues was more than offset by revenue increases of approximately \$2,900,000 at both AMSC Wires and Power Electronic Systems.

AMSC Wires' revenues increased by \$2,939,000 to \$6,397,000 for the six-month period ended September 30, 2004 from \$3,458,000 for the same prior-year period, due to a \$1,838,000 increase in HTS wire sales and a \$999,000 increase in work performed on the DOE project to install an HTS power cable in the LIPA transmission grid. Wire sales increased to \$2,865,000 in the first six months of fiscal 2005 from \$1,027,000 in the same period last year, due to improved manufacturing yields resulting in higher wire shipments, compared to the same prior-year period. LIPA-related revenues increased to \$2,877,000 for the six-month period ended September 30, 2004 from \$1,878,000 for the same prior-year period, as a result of higher subcontractor spending over the first six months of fiscal 2005, compared to the prior year. Contract revenues increased to \$655,000 from \$553,000 as a result of the beginning of work on the DARPA 2G contract.

Revenues in Power Electronic Systems increased by \$2,892,000 to \$4,847,000 for the six-month period ended September 30, 2004 from \$1,955,000 for the same period of the prior year as a result of a higher level of D-VAR system shipments in the first half of fiscal 2005, primarily to wind farm operators in the United States, Europe, and Canada.

Cost-sharing funding

In addition to reported revenues, we also received funding of \$561,000 for the three months ended September 30, 2004 under three government cost-sharing agreements with the U.S. Air Force, Department of Commerce, and DOE. For the same quarter of the prior year, we recorded approximately \$447,000 of funding from the same three agencies. For the six-month period ended September 30, 2004, we received cost-sharing funding of \$1,067,000, compared to \$759,000 in the same period of the prior year. All of our cost-sharing programs provide funding in support of 2G wire development work being done in the AMSC Wires business unit. We anticipate that a portion of our funding in the future will continue to come from cost-sharing agreements as we continue to develop joint programs with government agencies. As required by government contract accounting guidelines, funding from government cost-sharing agreements is recorded as an offset to R&D and SG&A expenses, rather than as revenues.

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Costs and expenses

Total costs and expenses for the quarter ended September 30, 2004 were \$13,768,000, compared to \$15,626,000 for the same period last year. Total costs and expenses for the six-month period ended September 30, 2004 were \$31,404,000, compared to \$31,802,000 for the same period last year.

“Costs of revenue – product sales and prototype development contracts” decreased by \$916,000 to \$9,044,000 for the three months ended September 30, 2004, compared to \$9,960,000 for the same period of the prior year. This decrease was directly related to the lower level of prototype development contract revenues in the SuperMachines business unit and the recording of approximately \$3,100,000 of contract costs as inventory at September 30, 2004, as future funding was deemed probable. This decrease was partially offset by higher costs associated with the increased level of product sales in the AMSC Wires and Power Electronic Systems business units.

“Costs of revenue – product sales and prototype development contracts” increased by \$4,297,000 to \$22,530,000 in the six-month period ended September 30, 2004 from \$18,233,000 for the same period of the prior year in connection with the significantly higher levels of revenue in AMSC Wires and Power Electronic Systems, partially offset by lower costs of revenue in SuperMachines.

“Costs of revenue – contract revenue” increased to \$513,000 and \$697,000 for the three- and six-month periods ended September 30, 2004, respectively, compared to \$186,000 and \$522,000 for the same prior-year periods, in conjunction with the increase in contract revenues.

Research and development

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2004	2003	2004	2003
R&D expenses per Consolidated Statements of Operations	\$2,047,000	\$ 3,111,000	\$ 3,636,000	\$ 7,974,000
R&D expenditures classified as Costs of revenue	5,144,000	6,685,000	13,967,000	11,439,000
R&D expenditures offset by cost-sharing funding	337,000	417,000	658,000	703,000
Pro forma R&D expenses	<u>\$7,528,000</u>	<u>\$ 10,213,000</u>	<u>\$ 18,261,000</u>	<u>\$ 20,116,000</u>

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R&D expenses (exclusive of amounts classified as costs of revenue and amounts offset by cost-sharing funding) decreased to \$2,047,000 and \$3,636,000 in the three and six months ended September 30, 2004, respectively, from \$3,111,000 and \$7,974,000 for the same periods last year primarily as a result of two factors: a higher percentage of the R&D costs was classified as costs of revenue or into inventory in connection with the prototype development contract work in SuperMachines and a higher percentage of AMSC Wires' labor and overhead costs was absorbed into costs of revenue in support of the higher level of product sales. Pro forma R&D expenses, which include amounts classified as costs of revenue and amounts offset by cost-sharing funding, decreased to \$7,528,000 and \$18,261,000 in the three and six months ended September 30, 2004, respectively, from \$10,213,000 and \$20,116,000 for the same periods last year, as a result of the recording of certain 36.5 MW motor program-related costs as inventory in the SuperMachines business unit. Other increases in spending, such as the higher subcontractor costs associated with the LIPA program over the first six months of fiscal 2005 compared to the same prior-year period, were offset by cost savings associated with headcount and controllable expense reductions which began in July 2003.

Selling, general, and administrative

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2004	2003	2004	2003
SG&A expenses per Consolidated Statements of Operations	\$2,164,000	\$2,368,000	\$4,541,000	\$5,072,000
SG&A expenditures classified as Costs of revenue	1,062,000	1,602,000	3,064,000	3,127,000
SG&A expenditures offset by cost-sharing funding	225,000	30,000	409,000	57,000
Pro forma SG&A expenses	\$3,451,000	\$4,000,000	\$8,014,000	\$8,256,000

SG&A expenses (exclusive of amounts classified as costs of revenue and amounts offset by cost-sharing funding) decreased to \$2,164,000 and \$4,541,000 in the three and six months ended September 30, 2004, respectively, from \$2,368,000 and \$5,072,000 for the same periods last year primarily as a result of a higher percentage of the SG&A costs being classified as costs of revenue or into inventory in connection with the prototype development contract work in

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SuperMachines. Pro forma SG&A expenses, which include amounts classified as costs of revenue and amounts offset by cost-sharing funding, decreased to \$3,451,000 and \$8,014,000 for the three and six months ended September 30, 2004 from \$4,000,000 and \$8,256,000 for the same periods last year. Increased SG&A expenses related to higher professional service fees, higher salary and benefit costs, and higher rent associated with our Westborough, Massachusetts corporate headquarters were more than offset by the recording of certain 36.5 MW program-related costs as inventory in the SuperMachines business unit and by cost savings associated with the headcount and controllable expense reductions which began in July 2003. SG&A expenses for the three and six months ended September 30, 2004 included \$135,000 of legal costs related to the lawsuit filed against us on November 5, 2003 by TM Capital, and our counterclaims against TM Capital, compared to \$0 for the same prior-year periods.

We present pro forma R&D and pro forma SG&A expenses, which are non-GAAP measures, because we believe this presentation provides useful information on our aggregate R&D and SG&A spending.

Non-operating expenses/Interest income

Interest income increased to \$160,000 and \$304,000 in the three and six months ended September 30, 2004, respectively, from \$48,000 and \$82,000 for the same periods of the prior year. This increase in interest income reflects the higher cash balance available for investment as a result of our October 2003 public offering of 5,721,250 shares of our common stock that generated net proceeds (after deducting underwriting discounts and commissions, but before deducting offering expenses) of \$51,148,000.

Fees – abandoned debt financing of \$0 and \$35,000 for the three and six months ended September 30, 2004, respectively, compared to \$1,356,000 for the three- and six-month periods ended September 30, 2003, represented various legal fees and expenses incurred in connection with a debt financing transaction that we decided not to pursue in August 2003 in favor of a public equity offering, which we completed in October 2003.

Other income (expense), net was (\$8,000) and (\$77,000) in the three and six months ended September 30, 2004, consisting primarily of losses from the sale of certain pieces of surplus equipment, compared to other income (expense), net of (\$17,000) and \$12,000 in the prior-year quarter and six-month period, respectively.

We expect to continue to incur operating losses until at least the end of fiscal year 2005 as we continue to devote significant financial resources to our commercialization efforts and to our ongoing research and development activities.

Please refer to the “Future Operating Results” section below for a discussion of certain factors that may affect our future results of operations and financial condition.

Liquidity and Capital Resources

At September 30, 2004, we had cash, cash equivalents and marketable securities of \$45,655,000 compared to \$52,647,000 at March 31, 2004, a decrease of \$6,992,000 over the first half of the fiscal year. The principal uses of cash for the six months ended September 30, 2004

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were \$6,020,000 for the funding of our operations, including significant increases in working capital needs due to the build-up of inventory in SuperMachines and Power Electronic Systems in anticipation of higher projected revenues in the third quarter of fiscal 2005, and \$891,000 for the acquisition of equipment, primarily for our 2G wire process. An increase in other assets of \$1,272,000, primarily as a result of a capitalized license payment made in the first quarter ended June 30, 2004, was offset by proceeds from the issuance of common stock of \$1,205,000, derived primarily from the exercise of stock options.

We have generated operating losses since our inception in 1987 and expect to continue incurring losses until at least the end of fiscal 2005. Operating losses for the fiscal years ended March 31, 2004, 2003 and 2002 contributed to net cash used by operating activities of \$17,422,000, \$39,605,000 and \$26,456,000, respectively, for these periods. For the six months ended September 30, 2004, net cash used by operating activities was \$6,020,000.

In October 2003, we completed a public equity offering of 5,721,250 shares of our common stock that generated net proceeds (after deducting underwriting discounts and commissions, but before deducting offering expenses) of \$51,148,000, in order to supplement our anticipated cash needs for operations as well as our investment in the 2G wire development program. Although our cash requirements fluctuate based on a variety of factors, including customer adoption of our products and our research and development efforts to commercialize our products, we believe that with the proceeds from the public stock offering, our available cash will be sufficient to fund our working capital, capital expenditures, and other cash requirements for at least the next 12 months.

We have potential funding commitments (excluding amounts included in accounts receivable) of approximately \$57,116,000 to be received after September 30, 2004 from government and commercial customers, compared to \$65,301,000 at March 31, 2004. However, these current funding commitments, including \$42,279,000 on U.S. government contracts, are subject to certain standard cancellation provisions. Additionally, several of our government contracts are being funded incrementally, and as such, are subject to the future authorization and appropriation of government funding on an annual basis. We have a history of successful performance under incrementally-funded contracts with the government.

Included in our current potential funding commitment amount is \$30,946,000 relating to the Navy 36.5 MW motor contract, which represents the total base program value (excluding certain potential performance-based incentive fees) of \$66,611,000, plus \$317,000 of approved incentive fees, less the \$35,982,000 of revenue recognized for the program through September 30, 2004.

Of the current commitment amount of \$57,116,000 as of September 30, 2004, approximately 76% is billable to and potentially collectable from our customers within the next 12 months.

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

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

New Accounting Pronouncements

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on EITF No. 03-01, "The Meaning of Other-Than Temporary Impairment and its Application to Certain Investments." EITF No. 03-01 addresses disclosures about unrealized losses on available-for-sale debt and equity securities and the evaluation of other-than temporary impairment related to securities accounted for under FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The provisions of EITF No. 03-01 are effective for other-than temporary impairment and disclosures in fiscal periods beginning after June 15, 2004. The adoption of EITF No. 03-01 had no impact on our financial position or operating results.

FUTURE OPERATING RESULTS

Various statements included herein, as well as other statements made from time to time by our representatives, which relate to future matters (including but not limited to statements concerning our future commercial success) constitute forward-looking statements and are made under the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. There are a number of important factors which could cause our actual results of operations and financial condition in the future to vary from that indicated in such forward-looking statements. Factors that may cause such differences include, without limitation, the risks, uncertainties and other information set forth below.

We have a history of operating losses, and we expect 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 six months ended September 30, 2004 was \$9,030,000, and for the fiscal years ended March 31, 2004, March 31, 2003, and March 31, 2002 was \$26,733,000, \$87,633,000, and \$56,985,000, respectively. Our accumulated deficit as of September 30, 2004 was \$308,873,000. 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 marketable securities totaling \$45,665,000 at September 30, 2004. In October 2003, we completed a public offering of 5,721,250 shares of our common stock that generated net proceeds (after deducting underwriting discounts and commissions, but before deducting offering expenses) of \$51,148,000. With the proceeds from this stock offering, we believe our available cash will be sufficient to fund our working capital, capital expenditures, and other cash requirements for at least the next 12 months. However, we may need additional funds sooner than anticipated if our performance deviates significantly from our current business plan, if there are significant changes in competitive or other market factors, or if unforeseen circumstances arise. Such funds may not be available, or may not be available under terms acceptable to us.

There are a number of technological challenges that must be successfully addressed before our superconductor products can gain widespread commercial acceptance, and our inability to address such technological challenges could adversely affect our ability to acquire customers for our products.

Many of our 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

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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 (SMES) 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.

We have limited experience manufacturing our HTS products in commercial quantities, and failure to manufacture our HTS products in commercial quantities at acceptable cost 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 early stage of operation of our manufacturing plant located in Devens, Massachusetts. 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.

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 widespread commercial use, we will have to develop a

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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 Energy giving GE Energy the exclusive right to offer our Distributed-SMES (D-SMES) and dynamic VAR (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 wire, including Sumitomo Electric Industries, Intermagnetics General, European Advanced Superconductors, Nexans, Trithor, 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, from permanent magnet motors that are being developed, and from companies developing HTS rotating machinery including Siemens and GE. 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, Chairman of the Board 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 affect our business and future prospects.

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 often appropriates funds for a program on a fiscal-year basis even though contract performance may take more than one year. Consequently, at the beginning of many major governmental programs, contracts often may not be fully funded, and additional monies are then committed to the contract only if, as and when appropriations are made by Congress for future fiscal years. 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 affect our ability to obtain future government contracts which could, in turn, seriously harm our ability to develop our technologies and products.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk through financial instruments, such as investments in marketable securities, is not material.

Item 4. Controls and Procedures

The Company's management, with the participation of the Company's chief executive officer and chief financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2004. In designing and evaluating the Company's disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applied its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that, as of September 30, 2004, the Company's disclosure controls and procedures were (1) designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company's chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

We received notice on November 5, 2003 of a lawsuit filed against us on October 28, 2003 in the Court of Chancery of the State of Delaware in and for New Castle County by TM Capital Corp., a past financial advisor to us, under which TM Capital claims to be entitled to cash and equity compensation with respect to our October 2003 public equity offering. Specifically, TM Capital is requesting a cash payment in excess of \$1.6 million and warrants to purchase over 170,000 shares of our common stock at an exercise price of \$9.50 per share as a result of our decision not to continue to pursue a proposed \$50 million secured debt transaction and instead complete a public stock offering. We filed an answer to this lawsuit, denying TM Capital's claims for damages and other relief and asserting several counterclaims against TM Capital, including breach of contract, gross negligence, and breach of fiduciary duty. The lawsuit is currently in the early stages of discovery. We believe we have meritorious defenses to this lawsuit and intend to defend it vigorously.

Except as discussed above, we are not involved in any legal proceedings other than routine patent litigation or related proceedings incidental to our business that we do not consider material.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

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

The following matters were voted upon at the Company's Annual Meeting of Stockholders held on July 29, 2004:

Proposal	Votes For	Votes Withheld		
1. Election of Directors				
Gregory J. Yurek	24,487,991	888,727		
Albert J. Baciocco, Jr.	24,523,414	853,304		
Vikram S. Budhraj	24,514,639	862,079		
Peter O. Crisp	24,395,646	981,072		
Richard Drouin	24,374,176	1,002,542		
Andrew G. C. Sage, II	24,537,477	839,241		
John B. Vander Sande	22,030,472	3,346,246		
	Votes For	Votes Against	Abstentions	Broker Non-Votes
2. Approval of amendment to Restated Certificate of Incorporation	24,390,847	891,323	94,548	0
	Votes For	Votes Against	Abstentions	Broker Non-Votes
3. Approval of 2004 Stock Incentive Plan	7,311,990	6,709,701	119,805	11,235,222
	Votes For	Votes Against	Abstentions	Broker Non-Votes
4. Approval of amendment to Second Amended and Restated 1997 Director Stock Option Plan	12,059,995	1,970,078	111,423	11,235,222
	Votes For	Votes Against	Abstentions	Broker Non-Votes
5. Ratification of independent auditors	25,256,871	71,284	48,563	0

Please see the Company's Proxy Statement filed with the Securities and Exchange Commission (SEC) on June 24, 2004 in connection with the Company's Annual Meeting of Stockholders held on July 29, 2004 for a description of the matters voted upon.

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Item 5. Other Information

Not Applicable

Item 6. Exhibits

See the Exhibit Index on the page immediately preceding the exhibits for a list of exhibits filed as part of this quarterly report, which Exhibit Index is incorporated herein by this reference.

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

November 9, 2004

/s/ Gregory J. Yurek

Date

Gregory J. Yurek
Chairman of the Board and
Chief Executive Officer

November 9, 2004

/s/ Kevin M. Bisson

Date

Kevin M. Bisson
Senior Vice President,
Chief Financial Officer and Treasurer
(Principal Financial Officer)

November 9, 2004

/s/ Thomas M. Rosa

Date

Thomas M. Rosa
Vice President of Finance and Accounting,
and Secretary (Principal Accounting Officer)

Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
10.1	Form of incentive stock option agreement under 2004 Stock Incentive Plan
10.2	Form of non-statutory stock option agreement under 2004 Stock Incentive Plan
10.3	Form of restricted stock agreement under 2004 Stock Incentive Plan
10.4	Form of stock option agreement under Second Amended and Restated 1997 Director Stock Option Plan, as amended
10.5	Executive Bonus Plan
31.1	Chief Executive Officer - Certification pursuant to Rule 13a-14(a) or Rule 15d - 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer - Certification pursuant to Rule 13a-14(a) or Rule 15d - 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer - Certification pursuant to Rule 13a-14(b) or Rule 15d - 14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer - Certification pursuant to Rule 13a-14(b) or Rule 15d - 14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

AMERICAN SUPERCONDUCTOR CORPORATION

Incentive Stock Option Agreement
Granted Under 2004 Stock Incentive Plan

1. Grant of Option.

This agreement evidences the grant by American Superconductor Corporation, a Delaware corporation (the "Company"), on _____, 200[] (the "Grant Date") to [_____] , an employee of the Company (the "Participant"), of an option to purchase, in whole or in part, on the terms provided herein and in the Company's 2004 Stock Incentive Plan (the "Plan"), a total of [_____] shares (the "Shares") of common stock, \$.01 par value per share, of the Company ("Common Stock") at \$[_____] per Share. Unless earlier terminated, this option shall expire at 5:00 p.m., Eastern time, on [_____] (the "Final Exercise Date").

It is intended that the option evidenced by this agreement shall be an incentive stock option as defined in Section 422 of the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder (the "Code"). Except as otherwise indicated by the context, the term "Participant", as used in this option, shall be deemed to include any person who acquires the right to exercise this option validly under its terms.

2. Vesting Schedule.

Except as otherwise provided in this Agreement, this option may be exercised prior to the Final Exercise Date as to not more than the number of shares set forth in the table below during the respective periods set forth in the table below.

Exercise Period	Percentage of Shares as to Which Option is Exercisable
Less than one year from [Fill in option date here] (the "Vesting Date")	
At least one year but less than two years from the Vesting Date	
At least two years but less than three years from the Vesting Date	
At least three years but less than four years from the Vesting Date	
At least four years but less than five years from the Vesting Date	
At least five years from the Vesting Date	

The right of exercise shall be cumulative so that to the extent the option is not exercised in any period to the maximum extent permissible it shall continue to be exercisable, in whole or in part, with respect to all Shares for which it is vested until the earlier of the Final Exercise Date or the termination of this option under Section 3 or the Plan.

3. Exercise of Option.

(a) Form of Exercise. Each election to exercise this option shall be in writing, signed by the Participant, and received by the Company at its principal office, accompanied by this agreement, and payment in full in the manner provided in the Plan. The Participant may purchase less than the number of shares covered hereby, provided that no partial exercise of this option may be for any fractional share or for fewer than ten whole shares.

(b) Continuous Relationship with the Company Required. Except as otherwise provided in this Section 3, this option may not be exercised unless the Participant, at the time he or she exercises this option, is, and has been at all times since the Grant Date, an employee or officer of, or consultant or advisor to, the Company or any parent or subsidiary of the Company as defined in Section 424(e) or (f) of the Code (an "Eligible Participant").

(c) Termination of Relationship with the Company. If the Participant ceases to be an Eligible Participant for any reason, then, except as provided in paragraphs (d) and (e) below, the right to exercise this option shall terminate 60 days after such cessation (but in no event after the Final Exercise Date), provided that this option shall be exercisable only to the extent that the Participant was entitled to exercise this option on the date of such cessation. Notwithstanding the foregoing, if the Participant, prior to the Final Exercise Date, violates the non-competition or confidentiality provisions of any employment contract, confidentiality and nondisclosure agreement or other agreement between the Participant and the Company, the right to exercise this option shall terminate immediately upon written notice to the Participant from the Company describing such violation.

(d) Exercise Period Upon Death or Disability. If the Participant dies or becomes disabled (within the meaning of Section 22(e)(3) of the Code) prior to the Final Exercise Date while he or she is an Eligible Participant and the Company has not terminated such relationship for "cause" as specified in paragraph (e) below, this option shall be exercisable, within the period of 180 days following the date of death or disability of the Participant, by the Participant (or in the case of death by an authorized transferee), provided that this option shall be exercisable only to the extent that this option was exercisable by the Participant on the date of his or her death or disability, and further provided that this option shall not be exercisable after the Final Exercise Date.

(e) Discharge for Cause. If the Participant, prior to the Final Exercise Date, is discharged by the Company for "cause" (as defined below), the right to exercise this option shall terminate immediately upon the effective date of such discharge. "Cause" shall mean willful misconduct by the Participant or willful failure by the Participant to perform his or her responsibilities to the Company (including, without limitation, breach by the Participant of any provision of any employment, consulting, advisory, nondisclosure, non-competition or other similar agreement between the Participant and the Company), as determined by the Company, which determination shall be conclusive. The Participant shall be considered to have been discharged for "Cause" if the Company determines, within 30 days after the Participant's resignation, that discharge for cause was warranted.

4. Tax Matters.

(a) Withholding. No Shares will be issued pursuant to the exercise of this option unless and until the Participant pays to the Company, or makes provision satisfactory to the Company for payment of, any federal, state or local withholding taxes required by law to be withheld in respect of this option.

(b) Disqualifying Disposition. If the Participant disposes of Shares acquired upon exercise of this option within two years from the Grant Date or one year after such Shares were acquired pursuant to exercise of this option, the Participant shall notify the Company in writing within ten days after such disposition.

5. Nontransferability of Option.

This option may not be sold, assigned, transferred, pledged or otherwise encumbered by the Participant, either voluntarily or by operation of law, except by will or the laws of descent and distribution, and, during the lifetime of the Participant, this option shall be exercisable only by the Participant.

6. Change in Control.

Notwithstanding any other provision of Sections 2 and 3 of this Agreement to the contrary, this option shall become exercisable in full immediately prior to a "Change in Control of the Company" (as defined below). For purposes of this Agreement, a "Change in Control of the Company" shall occur or be deemed to have occurred only if (i) any "person", as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities; (ii) during any period of two consecutive years ending during the term of this Agreement, individuals who at the beginning of such period constitute the Board of Directors of the Company, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect any transaction described in clause (i), (iii) or (iv) of this Section 6) whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who were either directors at the beginning of the period or whose election or whose nomination for election was previously so approved (collectively, the "Disinterested Directors"), cease for any reason to constitute a majority of the Board of Directors; (iii) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such

merger or consolidation; or (iv) the stockholders of the Company approve a plan of complete liquidation of the Company or there occurs the sale or disposition by the Company of all or substantially all of the Company's assets.

7. Provisions of the Plan.

This option is subject to the provisions of the Plan, a copy of which is furnished to the Participant with this option.

IN WITNESS WHEREOF, the Company has caused this option to be executed under its corporate seal by its duly authorized officer. This option shall take effect as a sealed instrument.

AMERICAN SUPERCONDUCTOR CORPORATION

Dated: _____

By: _____

Thomas Rosa
Vice President, Finance and Accounting

PARTICIPANT'S ACCEPTANCE

The undersigned hereby accepts the foregoing option and agrees to the terms and conditions thereof. The undersigned hereby acknowledges receipt of a copy of the Company's 2004 Stock Incentive Plan.

PARTICIPANT:

Address: _____

AMERICAN SUPERCONDUCTOR CORPORATION

Nonstatutory Stock Option Agreement
Granted Under 2004 Stock Incentive Plan1. Grant of Option.

This agreement evidences the grant by American Superconductor Corporation, a Delaware corporation (the "Company"), on , 200[] (the "Grant Date") to [], an [employee], [consultant] of the Company (the "Participant"), of an option to purchase, in whole or in part, on the terms provided herein and in the Company's 2004 Stock Incentive Plan (the "Plan"), a total of [] shares (the "Shares") of common stock, \$.01 par value per share, of the Company ("Common Stock") at \$[] per Share. Unless earlier terminated, this option shall expire at 5:00 p.m., Eastern time, on [] (the "Final Exercise Date").

It is intended that the option evidenced by this agreement shall not be an incentive stock option as defined in Section 422 of the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder (the "Code"). Except as otherwise indicated by the context, the term "Participant", as used in this option, shall be deemed to include any person who acquires the right to exercise this option validly under its terms.

2. Vesting Schedule.

Except as otherwise provided in this Agreement, this option may be exercised prior to the Final Exercise Date as to not more than the number of shares set forth in the table below during the respective periods set forth in the table below.

<u>Exercise Period</u>	<u>Percentage of Shares as to Which Option is Exercisable</u>
Less than one year from [Fill in option date here] (the "Vesting Date")	
At least one year but less than two years from the Vesting Date	
At least two years but less than three years from the Vesting Date	
At least three years but less than four years from the Vesting Date	
At least four years but less than five years from the Vesting Date	
At least five years from the Vesting Date	

The right of exercise shall be cumulative so that to the extent the option is not exercised in any period to the maximum extent permissible it shall continue to be exercisable, in whole or in part, with respect to all Shares for which it is vested until the earlier of the Final Exercise Date or the termination of this option under Section 3 or the Plan.

3. Exercise of Option.

(a) Form of Exercise. Each election to exercise this option shall be in writing, signed by the Participant, and received by the Company at its principal office, accompanied by this agreement, and payment in full in the manner provided in the Plan. The Participant may purchase less than the number of shares covered hereby, provided that no partial exercise of this option may be for any fractional share or for fewer than ten whole shares.

(b) Continuous Relationship with the Company Required. Except as otherwise provided in this Section 3, this option may not be exercised unless the Participant, at the time he or she exercises this option, is, and has been at all times since the Grant Date, an employee, officer, or consultant or advisor to, the Company (an "Eligible Participant").

(c) Termination of Relationship with the Company. If the Participant ceases to be an Eligible Participant for any reason, then, except as provided in paragraphs (d) and (e) below, the right to exercise this option shall terminate 60 days after such cessation (but in no event after the Final Exercise Date), provided that this option shall be exercisable only to the extent that the Participant was entitled to exercise this option on the date of such cessation. Notwithstanding the foregoing, if the Participant, prior to the Final Exercise Date, violates the non-competition or confidentiality provisions of any employment contract, confidentiality and nondisclosure agreement or other agreement between the Participant and the Company, the right to exercise this option shall terminate immediately upon written notice to the Participant from the Company describing such violation.

(d) Exercise Period Upon Death or Disability. If the Participant dies or becomes disabled (within the meaning of Section 22(e)(3) of the Code) prior to the Final Exercise Date while he or she is an Eligible Participant and the Company has not terminated such relationship for "cause" as specified in paragraph (e) below, this option shall be exercisable, within the period of 180 days following the date of death or disability of the Participant, by the Participant (or in the case of death by an authorized transferee), provided that this option shall be exercisable only to the extent that this option was exercisable by the Participant on the date of his or her death or disability, and further provided that this option shall not be exercisable after the Final Exercise Date.

(e) Discharge for Cause. If the Participant, prior to the Final Exercise Date, is discharged by the Company for "cause" (as defined below), the right to exercise this option shall terminate immediately upon the effective date of such discharge. "Cause" shall mean willful misconduct by the Participant or willful failure by the Participant to perform his or her responsibilities to the Company (including, without limitation, breach by the Participant of any provision of any employment, consulting, advisory, nondisclosure, non-competition or other

similar agreement between the Participant and the Company), as determined by the Company, which determination shall be conclusive. The Participant shall be considered to have been discharged for "Cause" if the Company determines, within 30 days after the Participant's resignation, that discharge for cause was warranted.

4. Withholding.

No Shares will be issued pursuant to the exercise of this option unless and until the Participant pays to the Company, or makes provision satisfactory to the Company for payment of, any federal, state or local withholding taxes required by law to be withheld in respect of this option.

5. Nontransferability of Option.

This option may not be sold, assigned, transferred, pledged or otherwise encumbered by the Participant, either voluntarily or by operation of law, except by will or the laws of descent and distribution, and, during the lifetime of the Participant, this option shall be exercisable only by the Participant.

6. Change in Control.

Notwithstanding any other provision of Sections 2 and 3 of this Agreement to the contrary, this option shall become exercisable in full immediately prior to a "Change in Control of the Company" (as defined below). For purposes of this Agreement, a "Change in Control of the Company" shall occur or be deemed to have occurred only if (i) any "person", as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities; (ii) during any period of two consecutive years ending during the term of this Agreement, individuals who at the beginning of such period constitute the Board of Directors of the Company, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect any transaction described in clause (i), (iii) or (iv) of this Section 6) whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who were either directors at the beginning of the period or whose election or whose nomination for election was previously so approved (collectively, the "Disinterested Directors"), cease for any reason to constitute a majority of the Board of Directors; (iii) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (iv) the stockholders of the Company approve a plan of complete liquidation of the Company or there occurs the sale or disposition by the Company of all or substantially all of the Company assets.

7. Provisions of the Plan.

This option is subject to the provisions of the Plan, a copy of which is furnished to the Participant with this option.

IN WITNESS WHEREOF, the Company has caused this option to be executed under its corporate seal by its duly authorized officer. This option shall take effect as a sealed instrument.

AMERICAN SUPERCONDUCTOR CORPORATION

Dated: _____

By: _____

Thomas Rosa
Vice President, Finance and Accounting

PARTICIPANT'S ACCEPTANCE

The undersigned hereby accepts the foregoing option and agrees to the terms and conditions thereof. The undersigned hereby acknowledges receipt of a copy of the Company's 2004 Stock Incentive Plan.

PARTICIPANT:

Address: _____

AMERICAN SUPERCONDUCTOR CORPORATION

Restricted Stock Agreement

AGREEMENT made this day of , 2004, between American Superconductor Corporation, a Delaware corporation (the "Company"), and (the "Employee").

For valuable consideration, receipt of which is acknowledged, the parties hereto agree as follows:

1. Purchase of Shares.

The Company shall issue and sell to the Employee, and the Employee shall purchase from the Company, subject to the terms and conditions set forth in this Agreement and in the Company's 2004 Stock Incentive Plan (the "Plan"), shares (the "Shares") of common stock, \$.01 par value, of the company ("Common Stock"), at a purchase price of \$.01 per share. The aggregate purchase price for the Shares shall be paid by the Employee by check payable to the order of the company or such other method as may be acceptable to the Company. Upon receipt by the Company of payment for the Shares, the company shall issue to the Employee one or more certificates in the name of the Employee for that number of Shares purchased by the Employee. The Employee agrees that the Shares shall be subject to the purchase options set forth in Section 2 of this Agreement and the restrictions on transfer set forth in Section 4 of this Agreement.

2. Purchase Option.

(a) The Shares shall vest upon the earliest of (i) [insert financial targets]; (ii) a Change in Control of the Company (as defined below); or (iii) []. The Shares shall be "Unvested Shares" until vested as provided in the preceding sentence.

For purposes of the Agreement, a "Change in Control" shall be deemed to have occurred upon the occurrence of the following events: (i) any "person", as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities; (ii) during any period of two consecutive years ending during the term of this Agreement, individuals who at the beginning of such period constitute the Board of Directors of the Company, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect any

transaction described in clause (i), (iii) or (iv) of this Section 2) whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who were either directors at the beginning of the period or whose election or whose nomination for election was previously so approved (collectively, the "Disinterested Directors"), cease for any reason to constitute a majority of the Board of Directors; (iii) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (iv) the stockholders of the Company approve a plan of complete liquidation of the Company or there occurs the sale or disposition by the Company of all or substantially all of the Company's assets.

(b) In the event that the Employee ceases to be employed by the Company for any reason or no reason, with or without cause, prior to the occurrence of one of the events stated in clauses (i), (ii) or (iii) of paragraph (a) above, the Company shall have the right and option (the "Purchase Option") to purchase from the Employee, for a sum of \$.01 per share (the "Option Price"), some or all of the Unvested Shares.

(c) For purposes of the Agreement, employment with the Company shall include employment with a parent or subsidiary of the Company.

3. Exercise of Purchase Option and Closing.

(a) The Company may exercise the Purchase Option by delivering or mailing to the Employee (or his estate), within 60 days after the termination of the employment of the Employee with the Company, a written notice of exercise of the Purchase Option. Such notice shall specify the number of Shares to be purchased. If and to the extent the Purchase Option is not so exercised by the giving of such a notice within such 60-day period, the Purchase Option shall automatically expire and terminate effective upon the expiration of such 60-day period.

(b) Within 10 days after delivery to the Employee of the Company's notice of the exercise of the Purchase Option pursuant to subsection (a) above, the Employee (or his estate) shall, pursuant to the provisions of the Joint Escrow Instructions referred to in Section 5, tender to the Company at its principal offices the certificate or certificates representing the Shares which the Company has elected to purchase in accordance with the terms of this Agreement, duly endorsed in blank or with duly endorsed stock powers attached thereto, all in form suitable for the transfer of such Shares to the Company. Promptly following its receipt of such certificate or certificates, the Company shall pay to the Employee the aggregate Option Price for such Shares (provided that any delay in making such payment shall not invalidate the Company's exercise of the Purchase Option with respect to such Shares).

(c) After the time at which any Shares are required to be delivered to the Company for transfer to the Company pursuant to subsection (b) above, the Company shall not pay any dividend to the Employee on account of such Shares or permit the Employee to exercise any of the privileges or rights of a stockholder with respect to such Shares, but shall, in so far as permitted by law, treat the Company as the owner of such Shares.

(d) The Option Price may be payable, at the option of the Company, in cancellation of all or a portion of any outstanding indebtedness of the Employee to the Company or in cash (by check) or both.

(e) The Company shall not purchase any fraction of a Share upon exercise of the Purchase Option, and any fraction of a Share resulting from a computation made pursuant to Section 2 of this Agreement shall be rounded to the nearest whole Share (with any one-half Share being rounded upward).

(f) The Company may assign its Purchase Option to one or more persons or entities.

4. Restrictions on Transfer.

The Employee shall not sell, assign, transfer, pledge, hypothecate or otherwise dispose of, by operation of law or otherwise (collectively "transfer") any Shares, or any interest therein, that are subject to the Purchase Option, except that the Employee may transfer such Shares (i) to or for the benefit of any spouse, child or grandchild of the Employee, or to a trust for their benefit, provided that such Shares shall remain subject to this Agreement (including without limitation the restrictions on transfer set forth in this Section 4 and the Purchase Option) and such permitted transferee shall, as a condition to such transfer, deliver to the Company a written instrument confirming that such transferee shall be bound by all of the terms and conditions of this Agreement or (ii) as a part of the sale of all or substantially all of the shares of capital stock of the Company (including pursuant to a merger or consolidation), provided that, in accordance with Section 9 of the Plan, the securities or other property received by the Employee in connection with such transaction shall remain subject to this Agreement.

5. Escrow.

The Employee shall, upon the execution of this Agreement, execute Joint Escrow Instructions in the form attached to this Agreement as Exhibit A. The Joint Escrow Instructions shall be delivered to the Controller of the company, as escrow agent thereunder. The Employee shall deliver to such escrow agent a stock assignment duly endorsed in blank, in the form attached to this Agreement as Exhibit B, and hereby instructs the Company to deliver to such escrow agent, on behalf of the Employee, the certificate(s) evidencing the Shares issued hereunder. Such materials shall be held by such escrow agent pursuant to the terms of such Joint Escrow Instructions.

6. Restrictive Legends.

All certificates representing Shares shall have affixed thereto a legend in substantially the following form, in addition to any other legends that may be required under federal or state securities law:

"The shares of stock represented by this certificate are subject to restrictions on transfer and an option to purchase set forth in a certain Restricted Stock Agreement between the corporation and the registered owner of these shares (or his predecessor in interest), and such Agreement is available for inspection without charge at the office of the Secretary of the corporation."

7. Withholding Taxes; Section 83(b) Election.

(a) The Employee acknowledges and agrees that the Company has the right to deduct from payments of any kind otherwise due to the Employee any federal, state or local taxes of any kind required by law to be withheld with respect to the purchase of the Shares by the Employee or the lapse of the Purchase Option.

(b) The Employee acknowledges that he has been informed of the availability of making an election in accordance with Section 83(b) of the Internal Revenue Code of 1986, as amended; that such election must be filed with the Internal Revenue Service within 30 days of the transfer of shares to the Employee; and that the Employee is solely responsible for evaluating the tax implications to the Employee or his or her purchase of the shares under this Agreement and for making such election if he or she so chooses.

8. No Rights To Employment.

Nothing contained in this Agreement shall be construed as giving the Employee any right to be retained, in any position, as an employee of the Company. The Employee further acknowledges and agrees that the transactions contemplated hereunder and the vesting provisions set forth herein do not constitute an express or implied process of continued engagement as an employee until the Shares vest, for any period of time, or at all.

9. Provisions of the Plan.

This Agreement is subject to the provisions of the Plan, a copy of which has been furnished to the Employee.

10. Severability.

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, and each other provision of this Agreement shall be severable and enforceable to the extent permitted by law.

11. Waiver.

Any provision for the benefit of the Company contained in this Agreement may be waived, either generally or in any particular instance, by the Board of Directors of the Company.

12. Binding Effect.

This Agreement shall be binding upon and inure to the benefit of the Company and the Employee and their respective heirs, executors, administrators, legal representatives, successors and assigns, subject to the restrictions on transfer set forth in Section 4 of this Agreement.

13. Notice.

All notices required or permitted hereunder shall be in writing and deemed effectively given upon personal delivery or five days after deposit in the United States Post Office, by registered or certified mail, postage prepaid, addressed to the other party hereto at the address shown beneath his or its respective signature to this Agreement, or at such other address or addresses as either party shall designate to the other in accordance with this Section 13.

14. Pronouns.

Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular forms of nouns and pronouns shall include the plural, vice versa.

15. Entire Agreement.

This Agreement and the Plan constitute the entire agreement between the parties, and supersede all prior agreements and understandings, relating to the subject matter of this Agreement.

16. Amendment.

This Agreement may be amended or modified only by a written instrument executed by both the Company and the Employee.

17. Governing Law.

This Agreement shall be construed, interpreted and enforced in accordance with the internal laws of the State of Delaware without regard to any applicable conflicts of law.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

AMERICAN SUPERCONDUCTOR CORPORATION

By: _____

Thomas Rosa

Title: Vice President, Finance and Accounting

Address: Two Technology Drive
Westborough, MA 01581

The Employee has reviewed the provisions of this Agreement, has had an opportunity to obtain the advice of the Employee's own tax and legal advisors prior to executing this Agreement and fully understands and agrees to the provisions hereof. The Employee understands that the law firm of Wilmer Cutler Pickering Hale and Dorr LLP is acting as counsel to the Company in connection with the transactions contemplated by this Agreement and is not acting as counsel to the Employee.

Address: _____

AMERICAN SUPERCONDUCTOR CORPORATION

Joint Escrow Instructions

_____, 2004

Mr. Thomas M. Rosa
Vice President, Finance and Accounting
American Superconductor Corporation
Two Technology Drive
Westborough, MA 01581

Dear Sir:

As Escrow Agent for the American Superconductor Corporation, a Delaware corporation (the "Company"), and the undersigned person ("Holder"), you are hereby authorized and directed to hold the documents delivered to you pursuant to the terms of that certain Restricted Stock Agreement (the "Agreement") of even date herewith, to which a copy of these Joint Escrow Instructions is attached, in accordance with the following instructions:

1. Appointment. Holder irrevocably authorizes the company to deposit with you any certificates evidencing Shares (as defined in the Agreement) to be held by you hereunder and any additions and substitutions to said Shares. For purposes of these Joint Escrow Instructions, "Shares" shall be deemed to include any additional or substitute property. Holder does hereby irrevocably constitute and appoint you as his attorney-in-fact and agent for the term of this escrow to execute with respect to such Shares all documents necessary or appropriate to make such Shares negotiable and to complete any transaction here contemplated. Subject to the provisions of this paragraph 1 and the terms of the Agreement, Holder shall exercise all rights and privileges of a stockholder of the Company while the Shares are held by you.

2. Closing of Purchase.

(a) Upon any purchase by the company of the Shares pursuant to the Agreement, the Company shall give to Holder and you a written notice specifying the purchase price for the Shares, as determined pursuant to the Agreement, and the time for a closing hereunder (the "Closing") at the principal office of the Company. Holder and the Company hereby irrevocably authorize and direct you to close the transaction contemplated by such notice in accordance with the terms of said notice.

(b) At the Closing, you are directed (a) to date the stock assignment form or forms necessary for the transfer of the Shares, (b) to fill in on such form or forms the number of Shares being transferred, and (c) to deliver the same, together with the

certificate or certificates evidencing the Shares to be transferred, to the Company against the simultaneous delivery to you of the purchase price for the Shares being purchased pursuant to the Agreement.

3. Withdrawal. The Holder shall have the right to withdraw from this escrow any Shares as to which the Purchase Option (as defined in the Agreement) has terminated or expired.

4. Duties of Escrow Agent.

(a) Your duties hereunder may be altered, amended, modified or revoked only by a writing signed by all of the parties hereto.

(b) You shall be obligated only for the performance of such duties as are specifically set forth herein and may rely and shall be protected in relying or refraining from acting on any instrument reasonably believed by you to be genuine and to have been signed or presented by the proper party or parties. You shall not be personally liable for any act you may do or omit to do hereunder as Escrow Agent or as attorney-in-fact of Holder while acting in good faith and in the exercise of your own good judgment, and any act done or omitted by you pursuant to the advice of your own attorneys shall be conclusive evidence of such good faith.

(c) You are hereby expressly authorized to disregard any and all warnings given by any of the parties hereto or by any other person or Company, excepting only orders or process of courts of law, and are hereby expressly authorized to comply with and obey orders, judgments or decrees of any court. In case you obey or comply with any such order, judgment or decree of any court, you shall not be liable to any of the parties hereto or to any other person, firm or Company by reason of such compliance, notwithstanding any such order, judgment or decree being subsequently reversed, modified, annulled, set aside, vacated or found to have been entered without jurisdiction.

(d) You shall not be liable in any respect on account of the identity, authority or rights of the parties executing or delivering or purporting to execute or deliver the Agreement or any documents or papers deposited or called for hereunder.

(e) You shall be entitled to employ such legal counsel and other experts as you may deem necessary properly to advise you in connection with your obligations hereunder and may rely upon the advice of such counsel.

(f) Your rights and responsibilities as Escrow Agent hereunder shall terminate if (i) you cease to be Controller of the Company or (ii) you resign by written notice to each party. In the event of a termination under clause (i), your successor as Controller shall become Escrow Agent hereunder; in the event of a termination under clause (ii), the Company shall appoint a successor Escrow Agent hereunder.

(g) If you reasonably require other or further instruments in connection with these Joint Escrow Instructions or obligations in respect hereto, the necessary parties hereto shall join in furnishing such instruments.

(h) It is understood and agreed that should any dispute arise with respect to the delivery and/or ownership or right of possession of the securities held by you hereunder, you are authorized and directed to retain in your possession without liability to anyone all or any part of said securities until such dispute shall have been settled either by mutual written agreement of the parties concerned or by a final order, decree or judgment of a court competent jurisdiction after the time for appeal has expired and no appeal has been perfected, but you shall be under no duty whatsoever to institute or defend any such proceedings.

(i) These Joint Escrow Instructions set forth your sole duties with respect to any and all matters pertinent hereto and no implied duties or obligations shall be read into these Joint Escrow Instructions against you.

(j) The Company shall indemnify you and hold you harmless against any and all damages, losses, liabilities, costs, and expenses, including attorney's fees and disbursements, for anything done or omitted to be done by you as Escrow Agent in connection with this Agreement or the performance of your duties hereunder, except such as shall result from your gross negligence or willful misconduct.

5. Notice. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail with postage and fees prepaid, addressed to each of the other parties thereunto entitled at the following addresses, or at such other addresses as a party may designate by ten days' advance written notice to each of the other parties hereto.

COMPANY:	American Superconductor Corporation Two Technology Drive Westborough, MA 01581
HOLDER:	Notices to Holder shall be sent to the address set forth below Holder's signature below.
ESCROW AGENT:	American Superconductor Corporation Two Technology Drive Westborough, MA 01581 Attn: Vice President, Finance and Accounting

6. Miscellaneous.

(a) By signing these Joint Escrow Instructions, you become a party hereto only for the purpose of said Joint Escrow Instructions, and you do not become a party to the Agreement.

(b) This instrument shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

Very truly yours,

AMERICAN SUPERCONDUCTOR CORPORATION

By: _____

Thomas Rosa

Title: Vice President, Finance and Accounting

HOLDER:

(Signature)

Print Name

Address:

Date Signed: _____

ESCROW AGENT:

Vice President, Finance and Accounting

Stock Assignment

FOR VALUE RECEIVED, I hereby sell, assign and transfer unto _____ (_____) shares of Common Stock, \$[0.01] par value per share, of _____ (the "Corporation") standing in my name on the books of the Corporation represented by Certificate(s) Number _____ herewith, and do hereby irrevocably constitute and appoint _____ attorney to transfer the said stock on the books of the Corporation with full power of substitution in the premises.

Dated: _____

IN PRESENCE OF

NOTICE: The signature(s) to this assignment must correspond with the name as written upon the face of the certificate, in every particular, without alteration, enlargement, or any change whatever and must be guaranteed by a commercial bank, trust company or member firm of the Boston, New York or Midwest Stock Exchange.

AMERICAN SUPERCONDUCTOR CORPORATION

Non-Statutory Stock Option Agreement
Granted Under 1997 Directors Stock Option Plan

1. Grant of Option. American Superconductor Corporation, a Delaware corporation (the “Company”), hereby grants on this day of , 200 to (the “Optionee”) an option, pursuant to the Company’s 1997 Directors Stock Option Plan (the “Plan”), to purchase an aggregate of shares of Common Stock (“Common Stock”) of the Company at a price of \$ per share, purchasable as set forth in and subject to the terms and conditions of this option and the Plan. Except where the context otherwise requires, the term “Company” shall include the parent and all present and future subsidiaries of the Company as defined in Sections 424(e) and 424(f) of the Internal Revenue Code of 1986, as amended or replaced from time to time (the “Code”).

2. Non-Statutory Stock Option. This option is not intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

3. Exercise of Option and Provisions for Termination.

(a) Vesting Schedule. Except as otherwise provided in this Agreement, this option may be exercised prior to the tenth anniversary of the date of grant (hereinafter the “Expiration Date”). This option is fully vested upon the grant date of , 200 .

The right of exercise shall be cumulative so that if the option is not exercised to the maximum extent permissible during any exercise period, it shall be exercisable, in whole or in part, with respect to all shares not so purchased at any time prior to the Expiration Date or the earlier termination of this option. This option may not be exercised at any time on or after the Expiration Date, except as otherwise provided in Section 3(e) below.

(b) Exercise Procedure. Subject to the conditions set forth in this Agreement, this option shall be exercised by the Optionee’s delivery of written notice of exercise to the Treasurer of the Company, specifying the number of shares to be purchased and the purchase price to be paid therefor and accompanied by payment in full in accordance with Section 4. Such exercise shall be effective upon receipt by the Treasurer of the Company of such written notice together with the required payment. The Optionee may purchase less than the number of shares covered hereby, provided that no partial exercise of this option may be for any fractional share or for fewer than ten whole shares.

(c) Continuous Relationship with the Company Required. Except as otherwise provided in this Section 3, this option may not be exercised unless the Optionee, at the time he or she exercises this option, is, and has been at all times since the date of grant of this option, an employee, officer or director of, or consultant or advisor to, the Company (an “Eligible Optionee”).

(d) Termination of Relationship with the Company. If the Optionee ceases to be an Eligible Optionee for any reason, then, except as provided in paragraphs (e) and (f) below, the right to exercise this option shall terminate [60 days] after such cessation (but in no event after the Expiration Date), provided that this option shall be exercisable only to the extent that the Optionee was entitled to exercise this option on the date of such cessation. Notwithstanding the foregoing, if the Optionee, prior to the Expiration Date, materially violates the non-competition or confidentiality provisions of any employment contract, confidentiality and nondisclosure agreement or other agreement between the Optionee and the Company, the right to exercise this option shall terminate immediately upon written notice to the Optionee from the Company describing such violation.

(e) Exercise Period Upon Death or Disability. If the Optionee dies or becomes disabled (within the meaning of Section 22(e)(3) of the Code) prior to the Expiration Date while he or she is an Eligible Optionee, or if the Optionee dies within three months after the Optionee ceases to be an Eligible Optionee (other than as the result of a termination of such relationship by the Company for “cause” as specified in paragraph (f) below), this option shall be exercisable, within the period of [180 days] following the date of death or disability of the Optionee (whether or not such exercise occurs before the Expiration Date), by the Optionee or by the person to whom this option is transferred by will or the laws of descent and distribution, provided that this option shall be exercisable only to the extent that this option was exercisable by the Optionee on the date of his or her death or disability. Except as otherwise indicated by the context, the term “Optionee”, as used in this option, shall be deemed to include the estate of the Optionee or any person who acquires the right to exercise this option by bequest or inheritance or otherwise by reason of the death of the Optionee.

(f) Discharge for Cause. If the Optionee, prior to the Expiration Date, is discharged by the Company for “cause” (as defined below), the right to exercise this option shall terminate immediately upon such cessation of employment. “Cause” shall mean willful misconduct by the Optionee in connection with the Optionee’s employment or willful failure to perform his or her responsibilities in the best interests of the Company (including, without limitation, breach by the Optionee of any provision of any employment, consulting, advisory, nondisclosure, non-competition or other similar agreement between the Optionee and the Company), as determined by the Company, which determination shall be conclusive. The Optionee shall be considered to have been discharged “for cause” if the Company determines, within 30 days after the Optionee’s resignation, that discharge for cause was warranted.

4. Payment of Purchase Price.

(a) Method of Payment. Payment of the purchase price for shares purchased upon exercise of this option shall be made (i) by delivery to the Company of cash or a check to the order of the Company in an amount equal to the purchase price of such shares, (ii) subject to the consent of the Company, by delivery to the Company of shares of Common Stock of the Company then owned by the Optionee having a fair market value equal in amount to the purchase price of such shares, (iii) by any other means which the Board of Directors determines are consistent with the purpose of the Plan and with applicable laws and regulations (including, without limitation, the provisions of Rule 16b-3 under the Securities Exchange Act of 1934 and Regulation T promulgated by the Federal Reserve Board), or (iv) by any combination of such methods of payment.

(b) Valuation of Shares or Other Non-Cash Consideration Tendered in Payment of Purchase Price. For the purposes hereof, the fair market value of any share of the Company's Common Stock or other non-cash consideration which may be delivered to the Company in exercise of this option shall be determined in good faith by the Board of Directors of the Company.

(c) Delivery of Shares Tendered in Payment of Purchase Price. If the Optionee exercises this option by delivery of shares of Common Stock of the Company, the certificate or certificates representing the shares of Common Stock of the Company to be delivered shall be duly executed in blank by the Optionee or shall be accompanied by a stock power duly executed in blank suitable for purposes of transferring such shares to the Company. Fractional shares of Common Stock of the Company will not be accepted in payment of the purchase price of shares acquired upon exercise of this option.

(d) Restrictions on Use of Option Stock. Notwithstanding the foregoing, no shares of Common Stock of the Company may be tendered in payment of the purchase price of shares purchased upon exercise of this option if the shares to be so tendered were acquired within twelve (12) months before the date of such tender, through the exercise of an option granted under the Plan or any other stock option or restricted stock plan of the Company.

5. Delivery of Shares; Compliance With Securities Laws, Etc.

(a) General. The Company shall, upon payment of the option price for the number of shares purchased and paid for, make prompt delivery of such shares to the Optionee, provided that if any law or regulation requires the Company to take any action with respect to such shares before the issuance thereof, then the date of delivery of such shares shall be extended for the period necessary to complete such action.

(b) Listing, Qualification, Etc. This option shall be subject to the requirement that if, at any time, counsel to the Company shall determine that the listing, registration or qualification of the shares subject hereto upon any securities exchange or under any state or federal law, or the consent or approval of any governmental or regulatory body, or that the disclosure of non-public information or the satisfaction of any other condition is necessary as a condition of, or in connection with, the issuance or purchase of shares hereunder, this option may not be exercised,

in whole or in part, unless such listing, registration, qualification, consent or approval, disclosure or satisfaction of such other condition shall have been effected or obtained on terms acceptable to the Board of Directors. Nothing herein shall be deemed to require the Company to apply for, effect or obtain such listing, registration, qualification or disclosure, or to satisfy such other condition.

6. Nontransferability of Option. This option is personal and no rights granted hereunder may be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) nor shall any such rights be subject to execution, attachment or similar process, except that this option may be transferred (i) by will or the laws of descent and distribution, (ii) pursuant to a qualified domestic relations order as defined in Section 414(p) of the Code or (iii) to a member of the immediate family of the Optionee (which shall mean the Optionee's spouse, children, parents, grandchildren and siblings) or to a trust established for the benefit of members of the Optionee's immediate family or the Optionee. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this option or of such rights contrary to the provisions hereof, or upon the levy of any attachment or similar process upon this option or such rights, this option and such rights shall, at the election of the Company, become null and void.

7. No Special Employment or Similar Rights. Nothing contained in the Plan or this option shall be construed or deemed by any person under any circumstances to bind the Company to continue the employment or other relationship of the Optionee with the Company for the period within which this option may be exercised.

8. Rights as a Shareholder. The Optionee shall have no rights as a shareholder with respect to any shares which may be purchased by exercise of this option (including, without limitation, any rights to receive dividends or non-cash distributions with respect to such shares) unless and until a certificate representing such shares is duly issued and delivered to the Optionee. No adjustment shall be made for dividends or other rights for which the record date is prior to the date such stock certificate is issued.

9. Adjustment Provisions.

(a) General. If, through or as a result of any merger, consolidation, sale of all or substantially all of the assets of the Company, reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar transaction, (i) the outstanding shares of Common Stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company, or (ii) additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Common Stock or other securities, the Optionee shall, with respect to this option or any unexercised portion hereof, be entitled to the rights and benefits, and be subject to the limitations, set forth in Section 15(a) of the Plan.

(b) Board Authority to Make Adjustments. Any adjustments under this Section 9 will be made by the Board of Directors, whose determination as to what adjustments, if any, will be made and the extent thereof will be final, binding and conclusive. No fractional shares will be issued pursuant to this option on account of any such adjustments.

10. Mergers, Consolidation, Distributions, Liquidations Etc. In the event of a merger or consolidation or sale of all or substantially all of the assets of the Company in which outstanding shares of Common Stock are exchanged for securities, cash or other property of any other corporation or business entity, or in the event of a liquidation of the Company, prior to the Expiration Date or termination of this option, the Optionee shall, with respect to this option or any unexercised portion hereof, be entitled to the rights and benefits, and be subject to the limitations, set forth in Section 16(a) of the Plan.

11. Withholding Taxes. The Company's obligation to deliver shares upon the exercise of this option shall be subject to the Optionee's satisfaction of all applicable federal, state and local income and employment tax withholding requirements.

12. Investment Representations; Legends.

(a) Representations. The Optionee represents, warrants and covenants that:

(i) Any shares purchased upon exercise of this option shall be acquired for the Optionee's account for investment only, and not with a view to, or for sale in connection with, any distribution of the shares in violation of the Securities Act of 1933 (the "Securities Act"), or any rule or regulation under the Securities Act.

(ii) The Optionee has had such opportunity as he or she has deemed adequate to obtain from representatives of the Company such information as is necessary to permit the Optionee to evaluate the merits and risks of his or her investment in the Company.

(iii) The Optionee is able to bear the economic risk of holding such shares acquired pursuant to the exercise of this option for an indefinite period.

(iv) The Optionee understands that (A) the shares acquired pursuant to the exercise of this option will not be registered under the Securities Act and are "restricted securities" within the meaning of Rule 144 under the Securities Act; (B) such shares cannot be sold, transferred or otherwise disposed of unless they are subsequently registered under the Securities Act or an exemption from registration is then available; (C) in any event, an exemption from registration under Rule 144 or otherwise under the Securities Act not be available for at least two years and even then will not be available unless a public market then exists for the Common Stock, adequate information concerning the Company is then available to the public, and other terms and conditions of Rule 144 are complied with; and (D) there is now no registration statement on file with the Securities and Exchange Commission with respect to any stock of the Company and the Company has no obligation or current intention to register any shares acquired pursuant to the exercise of this option under the Securities Act.

(v) The Optionee agrees that, if the Company offers any of its Common Stock for sale pursuant to a registration statement under the Securities Act, the Optionee will not, without the prior written consent of the Company, offer, sell, contract to sell or otherwise dispose of, directly or indirectly (a "Disposition"), any shares purchased upon exercise of this option for a period of 90 days after the effective date of such registration statement.

By making payment upon exercise of this option, the Optionee shall be deemed to have reaffirmed, as of the date of such payment, the representations made in this Section 12.

(b) Legends on Stock Certificate. All stock certificates representing shares of Common Stock issued to the Optionee upon exercise of this option shall have affixed thereto legends substantially in the following forms, in addition to any other legends required by applicable state law:

"The shares of stock represented by this certificate have not been registered under the Securities Act of 1933 and may not be transferred, sold or otherwise disposed of in the absence of an effective registration statement with respect to the shares evidenced by this certificate, filed and made effective under the Securities Act of 1933, or an opinion of counsel satisfactory to the Company to the effect that registration under such Act is not required."

"The shares of stock represented by this certificate are subject to certain restrictions on transfer contained in an Option Agreement, a copy of which will be furnished upon request by the issuer."

13. Miscellaneous.

(a) Except as provided herein, this option may not be amended or otherwise modified unless evidenced in writing and signed by the Company and the Optionee.

(b) All notices under this option shall be mailed or delivered by hand to the parties at their respective addresses set forth beneath their names below or at such other address as may be designated in writing by either of the parties to one another.

(c) This option shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts.

American Superconductor Corporation

By: _____

Thomas Rosa

Title: Vice President, Finance and Accounting

Address: Two Technology Drive

Westborough, MA 01581

OPTIONEE'S ACCEPTANCE

The undersigned hereby accepts the foregoing option and agrees to the terms and conditions thereof. The undersigned hereby acknowledges receipt of a copy of the Company's 1997 Directors' Stock Option Plan.

OPTIONEE

ADDRESS:

EXHIBIT 10.5**SUMMARY OF FISCAL 2005 EXECUTIVE BONUS PLAN**

On April 26, 2004, the Compensation Committee (the "Committee") of the Board of Directors of American Superconductor Corporation (the "Company") approved an executive bonus program for fiscal year 2005 for certain executive officers of the Company. Under the program, the Committee, which is comprised of three independent non-employee directors, is responsible for determining the compensation package for each executive officer except the Chief Executive Officer. The Board of Directors determines the compensation package of the Chief Executive Officer based on the recommendation it receives from the Committee. The bonuses will be based on the Company achieving certain targeted revenue and operating results as well as the individual performance of the executives.

The target bonus amount for each eligible executive officer is set forth below:

<u>Name</u>	<u>Title</u>	<u>Target Incentive</u>
Gregory J. Yurek	Chief Executive Officer	\$202,500
David Paratore	President and Chief Operating Officer	\$120,000
Kevin M. Bisson	Chief Financial Officer and Treasurer	\$84,400
Stuart C. Karon	Vice President, Business Development	\$48,000
Alexis P. Malozemoff	Chief Technical Officer	\$73,438
Thomas M. Rosa	Vice President, Finance and Accounting	\$35,659

CERTIFICATIONS

I, Gregory J. Yurek, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Superconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) [Not applicable];
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2004

/s/ Gregory J. Yurek

Gregory J. Yurek
Chief Executive Officer

CERTIFICATIONS

I, Kevin M. Bisson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Superconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) [Not applicable];
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2004

/s/ Kevin M. Bisson

Kevin M. Bisson
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of American Superconductor Corporation (the "Company") for the period ended September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Gregory J. Yurek, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Gregory J. Yurek

Gregory J. Yurek
Chief Executive Officer

November 9, 2004

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of American Superconductor Corporation (the "Company") for the period ended September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Kevin M. Bisson, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kevin M. Bisson

Kevin M. Bisson
Chief Financial Officer

November 9, 2004