SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

Current Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported):

September 5, 1997

AMERICAN SUPERCONDUCTOR CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Massachusetts

State or Other Jurisdiction of Incorporation)

0-19672	04-2959321
(Commission File Number)	(IRS Employer Identification No.)

Two Technology Drive, Westborough, MA	01581
(Address of principal executive offices)	(Zip Code)

(508) 836-4200

Registrant's Telephone Number, Including Area Code

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

ITEM 5. OTHER EVENTS

On April 8, 1997, a wholly owned subsidiary of American Superconductor Corporation merged with Superconductivity, Inc., a Delaware corporation ("SI"). As a result of the merger, shareholders of SI received 0.3292 share of the Company for each share of SI stock held (942,961 shares in the aggregate) and SI became a wholly-owned subsidiary of the Company.

The consolidated financial statements filed herewith have been prepared accounting for the merger using the pooling of interests method of accounting. These consolidated financial statements will become the historical financial statements of the Company.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits:

23.1 Consent of Coopers & Lybrand L.L.P.

23.2 Consent of Ernst & Young LLP

23.3 Consent of Smith & Gesteland, LLP

99.1 Consolidated Financial Statements of American Superconductor Corporation at March 31, 1997 and 1996 and for the three years in the period ended March 31, 1997 and Reports of Independent Accountants thereon.

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

SIGNATURE

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 hereunto duly authorized.

Date: September 5, 1997

AMERICAN SUPERCONDUCTOR CORPORATION

By: /s/ Gregory J. Yurek

Gregory J. Yurek
President and CEO

Exhibit Index

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EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation of our report dated August 18, 1997, on our audits of the consolidated financial statements of American Superconductor Corporation as of March 31, 1997 and 1996, and for the three years ended March 31, 1997 which report is included in this Registration Statement on Form 8K, into the Company's previously filed Registration Statements on Form S-8 (File Nos. 33-44962, 33-44963, 33-64832, 33-74418, 33-86106 and 33-86108).

/s/ COOPERS & LYBRAND L.L.P.

Boston, Massachusetts
September 3, 1997

Exhibit 23.2

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 33-44962, 33-44963, 33-64832, 33-74418, 33-86108, 33-86106) pertaining to various employee and director stock option plans of American Superconductor Corporation of our report dated February 29, 1996, with respect to the financial statements of Superconductivity, Inc. included in the Current Report on Form 8-K dated September 3, 1997, filed by American Superconductor Corporation with the Securities and Exchange Commission.

/s/ Ernst & Young LLP

Milwaukee, Wisconsin
September 3, 1997

Exhibit 23.3

[Logo]
SMITH & GESTELAND, LLP
Partners In Your Success-Since 1948

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation of our report dated February 7, 1997, on our audit of the financial statements of Superconductivity, Inc., as of December 31, 1996, and for the year then ended, which report is included in this Registration Statement on Form 8K, into the Company's previously filed Registration Statements on Form S-8 (file numbers 33-44962, 33-44963, 33-64832, 33-74418, 33-86106, and 33-86108).

Madison, Wisconsin
September 3, 1997

/s/ Smith & Gesteland, LLP
SMITH & GESTELAND, LLP

Certified Public Accountants and Business Consultants * Post Office Box 1764 * Madison, WI 55701-1764

EXHIBIT 99.1

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
American Superconductor Corporation

We have audited the consolidated balance sheets of American Superconductor Corporation as of March 31, 1997 and 1996 and the related consolidated statements of operations, stockholders' equity and cash flows for the three years ended March 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The financial statements give retroactive effect to the merger of American Superconductor Corporation and Superconductivity, Inc. on April 8, 1997 which has been accounted for as a pooling of interests as described in Note 1 to the consolidated financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Superconductor Corporation at March 31, 1997 and 1996, and the consolidated results of operations and cash flows for the three years ended March 31, 1997, in conformity with generally accepted accounting principles.

We have audited the consolidated balance sheets of American Superconductor Corporation as of March 31, 1997 and 1996 and the related consolidated statements of operations and cash flows for the three years ended March 31, 1997 prior to their restatement for the 1997 pooling of interests. The contribution of Superconductivity, Inc. to total assets, revenues and net loss represented 11 percent, 32 percent and 22 percent of the respective restated totals. Separate financial statements of Superconductivity, Inc. included in the restated consolidated balance sheets and statements of operations and cash flows were audited and reported on separately by other auditors. We also audited the combination of the accompanying consolidated balance sheets of March 31, 1997 and 1996 and the consolidated statements of operations and cash flows for the three years ended March 31, 1997 after restatement for the 1997 pooling of interests; in our opinion, such consolidated statements have been properly combined on the basis described in Note 2 of notes to consolidated financial statements.

Coopers & Lybrand L.L.P.

Boston, Massachusetts
August 18, 1997

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Superconductivity, Inc.

We have audited the accompanying balance sheets of Superconductivity, Inc. (a development stage company, the Company) as of December 31, 1995 and 1994, and the related statements of operations, shareholders' equity (deficit) and cash flows for the years then ended and the period from March 22, 1988 (Inception) to December 31, 1995 (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 1995 and 1994, and the results of its operations and its cash flows for the years then ended and the period from March 22, 1988 (Inception) to December 31, 1995, in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

Madison, Wisconsin
February 29, 1996

[Logo]
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Superconductivity, Inc.
Middleton, Wisconsin

We have audited the accompanying balance sheet of Superconductivity, Inc., as of December 31, 1996, and the related statements of operations, shareholders' equity (deficit), and cash flows for the year then ended (not presented separately herein). These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Superconductivity, Inc., as of December 31, 1995, and for the year then ended, were audited by other auditors whose report dated February 29, 1996, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Superconductivity, Inc. as of December 31, 1996, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles. We have not audited the financial statements of Superconductivity, Inc., for any period subsequent to December 31, 1996.

/s/ Smith & Gesteland, LLP

SMITH & GESTELAND, LLP

Madison, Wisconsin
February 7, 1997

AMERICAN SUPERCONDUCTOR CORPORATION
CONSOLIDATED BALANCE SHEETS

	March 31, 1997	March 31, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 584,804	$ 4,261,051
Accounts receivable	3,070,573	1,727,529
Notes receivable	383,607	607,536
Inventory	2,940,656	2,411,623
Prepaid expenses and other current assets	345,344	271,752
Total current assets	7,324,984	9,279,491
Property and equipment:		
Equipment	10,137,721	8,817,336
Furniture and fixtures	733,794	710,473
Leasehold improvements	1,732,215	1,663,806
	12,603,730	11,191,615
Less: accumulated depreciation	(8,835,754)	(6,892,029)
Property and equipment, net	3,767,976	4,299,586
Long-term marketable securities	15,446,106	22,257,898
Other assets	42,028	19,472
Total assets	$ 26,581,094	$ 35,856,447
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Note payable-line of credit	$ 530,000	$ 525,000
Accounts payable and accrued expenses	4,283,612	2,201,475
Deferred revenue	1,519,678	893,700
Current portion of long-term debt	673,428	558,789
Total current liabilities	7,006,718	4,178,964
Long-term debt (less current portion)	3,073,663	1,897,601
Commitments (Note 10)		
Stockholders' equity:		
Common stock, $.01 par value Authorized shares-20,000,000; issued and outstanding shares-10,505,118 in 1997 and 10,422,996 in 1996	105,051	104,230
Additional paid-in capital	76,388,679	75,663,526
Deferred compensation	(25,480)	(50,960)
Deferred contract costs - warrants	(557,265)	--
Unrealized loss on investments	(143,661)	(61,970)
Cumulative translation adjustment	(9,892)	4,602
Accumulated deficit	(59,256,719)	(45,879,546)
Total stockholders' equity	16,500,713	29,779,882
Total liabilities and stockholders' equity	$ 26,581,094	$ 35,856,447

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

AMERICAN SUPERCONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Year ended March 31,		
	1997	1996	1995
Revenues:			
Contract revenue	$ 6,867,444	$ 7,526,306	$ 6,596,177
Prototypes and prototype development contracts	2,936,567	2,366,351	1,107,374
Rental revenue	545,130	595,700	866,480
Other revenue	201,416	276,069	22,749
Total revenues	10,550,557	10,764,426	8,592,780
Costs and expenses:			
Costs of revenue	10,577,376	11,553,016	7,993,459
Research and development	8,477,365	5,704,494	5,348,872
Selling, general and administrative	4,290,500	4,538,167	3,924,180
Total costs and expenses	23,345,241	21,795,677	17,266,511
Merger related fees	(710,105)		
Interest income	1,177,386	1,585,168	1,872,811
Interest expense	(356,366)	(214,671)	(212,191)
Fees - terminated transaction	(669,627)		
Other income (expense), net	(23,777)	(37,529)	(23,093)
Net loss	$(13,377,173)	$(9,698,283)	$(7,036,204)
Net loss per common share	$ (1.27)	$ (0.94)	$ (0.69)
Weighted average number of common shares outstanding	10,497,643	10,351,993	10,248,890

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

AMERICAN SUPERCONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	1997	1996	1995
Cash flows from operating activities:			
Net loss	$(13,377,173)	(9,698,283)	(7,036,204)
Adjustments to reconcile net loss to net cash used by operations:			
Forgiveness of notes receivable	206,744	104,778	--
Depreciation and amortization	1,983,531	2,106,569	1,946,780
Write down of inventory and equipment	444,538	1,175,142	--
Gain on disposals of property and equipment	(9,697)	--	--
Deferred compensation expense	25,480	29,960	112,680
Deferred contract costs-warrant	79,613	--	--
Interest accrued on convertible debentures	230,746	100,383	150,000
Changes in operating asset and liability accounts :			
Accounts receivable	(1,343,043)	994,748	(1,726,788)
Inventory	(973,571)	(1,073,049)	(620,586)
Prepaid expenses and other current assets	(73,592)	(27,796)	(12,283)
Accounts payable and accrued expenses	2,082,137	(639,139)	541,771
Deferred revenue	625,978	678,700	15,000
Net cash used by operating activities	(10,098,309)	(6,247,987)	(6,629,630)
Cash flows from investing activities:			
Notes receivable	(82,815)	(40,973)	(671,341)
Repayment of notes receivable	100,000	--	--
Purchase of property and equipment	(1,451,142)	(1,342,922)	(1,869,066)
Sale of long-term marketable securities	6,730,101	9,924,608	3,099,626
Decrease (increase) in other assets	(37,130)	28,676	(701)
Net cash provided by investing activities	5,259,014	8,569,389	558,518
Cash flows from financing activities:			
Payments on notes payable	(131,049)	(422,352)	(472,876)
Proceeds from notes payable (net)	5,000	--	1,550,000
Proceeds from 10% convertible debentures	1,200,000	--	--
Net proceeds from issuance of common stock	89,097	379,969	545,964
Net cash provided by financing activities	1,163,048	(42,383)	1,623,088
Net increase (decrease) in cash and cash equivalents	(3,676,247)	2,279,019	(4,448,024)
Cash and cash equivalents at beginning of year	4,261,051	1,982,032	6,430,056
Cash and cash equivalents at end of year	$ 584,804	$ 4,261,051	$ 1,982,032
Supplemental schedule of cash flow information-cash paid for interest	$ 125,620	$ 114,288	$ 39,442

Supplemental disclosure of non-cash transaction in 1996:
Exchange of $150,000 convertible debentures in partial payment of exercise of stock warrants.

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

AMERICAN SUPERCONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-in Capital	Deferred Compensation	Deferred Contract Costs	Unrealized Gain/Loss on investments	Cumulative Translation Adjustment	Accumulated Deficit	Total Stockholders' Equity
Balance at March 31, 1994	9,333,608	$ 93,336	$62,889,244	$(193,600)			$ (4,121)	$(18,624,115)	$ 44,160,744
Effect of SI Merger	866,175	8,662	11,700,581					(10,520,944)	1,188,299
Exercise of stock options	136,244	1,362	515,847						517,209
Issuance of common stock	1,500	15	28,740						28,755
Purchase of fractional shares	(21)								
Amortization of deferred compensation				112,680					112,680
Unrealized loss on investments						(573,081)			(573,081)
Translation adjustment							17,314		17,314
Net loss								(7,036,204)	(7,036,204)
Balance at March 31, 1995	10,337,506	103,375	75,134,412	(80,920)		(573,081)	13,193	(36,181,263)	38,415,716
Exercise of warrants	65,840	658	499,342						500,000
Exercise of stock options	19,660	197	29,772						29,969
Purchase of fractional shares	(10)								
Amortization of deferred compensation				29,960					29,960
Unrealized gain on investments						511,111			511,111
Translation adjustment							(8,591)		(8,591)
Net loss								(9,698,283)	(9,698,283)
Balance at March 31, 1996	10,422,996	104,230	75,663,526	(50,960)		(61,970)	4,602	(45,879,546)	29,779,882
Exercise of stock options	82,122	821	88,275						89,096
Amortization of deferred compensation				25,480					25,480
Deferred contract costs-warrant			636,878		(636,878)				--
Warrant expense					79,613				79,613
Unrealized loss on investments						(81,691)			(81,691)
Translation adjustment							(14,494)		(14,494)
Net loss								(13,377,173)	(13,377,173)
Balance at March 31, 1997	10,505,118	$105,051	$76,388,679	$ (25,480)	$(557,265)	$(143,661)	$ (9,892)	$(59,256,719)	$ 16,500,713

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

AMERICAN SUPERCONDUCTOR CORPORATION
NOTES TO CONSOLIDATED STATEMENTS

1. NATURE OF THE BUSINESS

American Superconductor Corporation (the "Company" or "ASC"), which was formed on April 9, 1987, develops and commercializes high temperature superconducting ("HTS") wire, wire products and systems, including current leads, multistrand conductors, electromagnetic coils, and electromagnets and subsystems comprising electromagnetics integrated with appropriate cooling systems. The focus of the Company's development and commercialization efforts is on electrical equipment for use by electric utilities and industrial users of electrical power. For large-scale applications, the Company's development efforts are focused on power transmission cables, motors, transformers, generators and fault current limiters. In the area of power quality, the Company is focused on marketing and selling commercial low temperature superconducting magnetic energy storage ("SMES") devices, on development and commercialization of new SMES products, and on development of power electronic subsystems and engineering services for the power quality marketplace. The Company operates in one business segment. As the Company is moving toward commercialization of its technology, the Company is no longer reporting its financial statements as a development stage enterprise.

The Company has devoted a significant part of its efforts to research and development. The Company has recorded contract revenue related to research and development contracts of $6,867,444, $7,526,306 and $6,596,177 for the fiscal years ended March 31, 1997, 1996 and 1995, respectively. As discussed in Note 11, a significant portion of this contract revenue relates to development contracts with two stockholders, Inco Alloys International, Inc. ("Inco") and Pirelli Cavi S.p.A. ("Pirelli"). Included in costs of revenue are research and development expenses of approximately $5,322,000, $5,256,000 and $3,032,000 for the fiscal years ended March 31, 1997 1996 and 1995, respectively. Selling, general and administrative expenses also included as costs of revenue for the fiscal years ended March 31,1997, 1996 and 1995, were approximately $2,186,000, $2,075,000 and $1,365,000, respectively.

As explained more fully in Note 3 to these financial statements, on April 8, 1997, a wholly owned subsidiary of the Company merged with Superconductivity Inc. ("SI"). SI is a manufacturer of low temperature superconductor products for the industrial power quality market.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Company's significant accounting policies follows:

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. As described more fully in Note 3, on April 8, 1997, a wholly owned subsidiary of ASC merged with SI. These consolidated financial statements have been prepared following the pooling of interests method of accounting and reflect the combined financial position, operating results and cash flows of ASC and SI as if they had been combined for all periods presented. Prior to the merger, SI's fiscal year end was December 31. Effective with the merger, SI's year end was changed to March 31 to conform with ASC's fiscal year end. The audited results of SI's operations for the twelve month periods ended December 31, 1996, 1995, and 1994 are included in the Company's results of operations for the fiscal years ended March 31, 1997, 1996 and 1995, respectively. SI's audited balance sheets at December 31, 1996 and 1995 are included in the Company's balance sheets at March 31, 1997 and March 31, 1996, respectively. As a result, SI's results of operations for the quarter ended March 31, 1997 are not included in the consolidated statements of operations. In the quarter ended March 31, 1997, SI recorded revenues of $262,295 and incurred a net loss of $2,156,399 which included merger expenses of $1,457,054.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances have been eliminated.

Reclassification

Certain prior year amounts have been reclassified to be consistent with current year presentation.

Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash equivalents consist of government obligations, short-term certificates of deposit and repurchase agreements.

Accounts Receivable

Due to scheduled billing requirements specified under certain contracts, a portion of the Company's accounts receivable balance at March 31, 1997 and 1996 was unbilled. The unbilled portion included in the accounts receivable balance was approximately $1,090,000 or 35% of total accounts receivable and $588,000 or 34% of total accounts receivable at March 31, 1997 and 1996, respectively. The Company expects the amounts to be billed in the next year.

Long-term Marketable Securities

Long-term marketable securities, with original maturities of more than 12 months when purchased, consist primarily of U.S. Treasury Notes and a U.S. government agency security. These marketable securities are stated at amortized cost plus accrued interest which approximates fair value. Interest income is accrued as earned.

Inventories

Inventories are stated at the lower of cost (determined on a first-in first-out basis) or market.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives, which range from 3 to 7 years. Leasehold improvements are amortized over the shorter of the useful life of the improvement or the remaining term of the lease. Expenditures for maintenance and repairs are expensed as incurred. Upon retirement or other disposition of assets, the costs and related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is reflected in income.

Revenue Recognition

The Company has entered into contracts to perform research and development (see Note 11). Revenues from these contracts are recognized utilizing the percentage of completion method, measured by the relationship of costs incurred to total contract costs. Costs include direct engineering and development costs and applicable overhead. The Company generally recognizes its prototype revenue upon shipment, or, for certain programs, on the percentage of completion method of accounting. Customer deposits are recorded as deferred revenue until the related sales are recognized. The Company rents equipment to customers on a monthly basis and recognizes rental income as it is earned.

Research and Development Costs

Research and development costs are expensed as incurred.

Income Taxes

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce net deferred tax assets to the amount expected to be realized. No current or deferred income taxes have been provided because of the net operating losses incurred by the Company since its inception.

Computation of Net Loss per Common Share

Net loss per common share is computed using the weighted average number of common shares outstanding. Common equivalent shares are included in the per share calculations only when the effect of their inclusion would be dilutive.

In February 1997, the Financial Accounting Standards Board issued Statement of Accounting Standards No. 128, "Earnings Per Share" (SFAS 128), which is effective for fiscal years ending after December 15, 1997, including interim periods. Earlier application is not permitted. The Statement requires restatement of all prior-period earnings per share presented after the effective date. SFAS 128 specifies the computation, presentation and disclosure requirements for earnings per share. The Company will adopt SFAS 128 in fiscal year 1998 and has determined the impact to be immaterial.

Foreign Currency Translation

The functional currency of the Company's foreign subsidiary is the local currency. The assets and liabilities of this operation are translated into U.S. dollars at the exchange rate in effect at the balance sheet date and income and expense items are translated at average rates for the period. Cumulative translation adjustments are excluded from net loss and shown as a separate component of stockholders' equity. Foreign currency transaction gains and losses are included in the net loss and have not been material to date.

Risks and Uncertainties

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and would impact future results of operations and cash flows.

The Company invests its cash and cash equivalents with high credit quality financial institutions and invests primarily in investment grade marketable securities, including, but not limited to, government obligations, repurchase agreements and money market funds.

The Company's accounts receivable are comprised mostly of amounts owed by government agencies and some commercial companies. The Company does not require collateral or other security to support customer receivables. The Company believes any credit losses will not be material.

3. THE MERGER

In April, 1997, the Company completed a transaction (the "Merger") with SI. This transaction, in which the Company acquired all of the outstanding stock of SI by means of a merger of a subsidiary of the Company into SI, is being accounted for as a pooling of interests. The merger was effected through the exchange of 942,961 shares of the Company's common stock for all of the issued and outstanding shares of SI, based on a merger exchange ratio of .3292 shares of the Company's common stock for each share of SI common stock.

All fees and expenses related to the merger will be expensed as required under the pooling of interests accounting method. A charge of $710,105 has been recorded in the fiscal 1997 consolidated statement of operations reflecting merger expenses incurred in the period. SI incurred merger expenses of $1,457,054 in the quarter ended March 31, 1997. As noted in footnote 2, SI's results of operations for the quarter ended March 31, 1997 are not included in the consolidated statement of operations. The Company does not expect to incur significant additional merger expenses in fiscal year 1998 related to this transaction. Merger expenses consist principally of financial advisory, legal and accounting fees.

Combined and separate results of ASC and SI for the periods preceding the merger were as follows (in thousands):

	ASC	SI	Combined
Year ended March 31, 1997			
Revenues	$ 7,175	$ 3,376	$ 10,551
Net loss	$(10,422)	$(2,955)	$(13,377)
Year ended March 31, 1996			
Revenues	$ 7,131	$ 3,633	$ 10,764
Net loss	$ (7,320)	$(2,378)	$ (9,698)
Year ended March 31, 1995			
Revenues	$ 4,270	$ 4,323	$ 8,593
Net loss	$ (5,772)	$(1,264)	$ (7,036)

4. LONG-TERM MARKETABLE SECURITIES

Long-term marketable securities at March 31, 1997 consist of the following:

	Aggregate Cost	Fair Value	Gross Unrealized Loss
U.S. government and U.S. government agency securities	$15,589,767	$15,446,106	$143,661

The Company's long-term marketable securities are classified as available-for-sale securities and, accordingly, are recorded at amortized cost plus accrued interest which approximates fair value. The difference between cost and fair value is included in stockholders' equity. All of these securities mature in one to three years.

5. INVENTORIES

Inventories at March 31, 1997 and 1996 consist of the following:

	1997	1996
Raw materials	$ 546,776	$ 720,655
Work-in-progress	2,164,179	1,651,620
Finished goods	229,701	39,348
	$2,940,656	$2,411,623

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at March 31, 1997 and 1996 consist of the following:

	1997	1996
Accounts payable	$2,919,739	$1,756,320
Accrued professional fees	585,522	--
Accrued expenses	563,051	294,790
Accrued vacation	215,300	150,365
	$4,283,612	$2,201,475

7. LONG-TERM DEBT

Long-term debt at March 31, 1997 and 1996 consists of the following:

	1997	1996
Subordinated convertible debentures issued by SI in 1993 and 1996, principal of $2,537,492 and $1,337,492 plus accrued interest at 10% per annum aggregating $536,171 and $305,425 at March 31, 1997 and 1996, respectively, due January 1998	$3,073,663	$1,642,917
Note payable to ABB Power T & D Company Inc., interest payable monthly at 7.5%, with principal due April 1997	673,428	800,000
Obligation under capital lease	--	13,473
	3,747,091	2,456,390
Less amount due within one year	673,428	558,789
	$3,073,663	$1,897,601

The note payable to ABB Power T & D Company, Inc. ("ABB") is secured by specific items in SI's inventory and was payable in the amount of $224,479 upon the sale of each of the first three specified items in 1997 or in full in April 1997. The related inventory is included in work-in-process with a carrying value of $520,000 at December 31, 1996. Prior to the effective date of the Merger the repayment terms of the ABB note were renegotiated. In lieu of the final principal payment originally due April 20, 1997 as indicated above, the revised repayment schedule consists of a principal payment in the amount of $330,000 due April 30, 1997 with the balance of the note to be paid in twelve equal monthly installments of principal and interest of $29,795 commencing May 31, 1997.

In conjunction with the Merger, SI's subordinated convertible debentures have been exchanged for 7% subordinated notes of the Company, due April 8, 1999, with interest payable semiannually. At the option of the Company, principal and interest may also be paid in shares of the Company's common stock of equivalent value.

8. INCOME TAXES

The principal components of the Company's deferred tax liabilities and assets were the following:

March 31	1997	1996
Deferred tax assets:		
Net operating loss carryforward	$ 22,932,000	$ 18,561,000
Research and development and other credits	2,035,000	1,673,000
Depreciation and other	1,918,000	1,101,000
Valuation allowance	(26,885,000)	(21,335,000)
Net	--	--

At March 31, 1997 the Company had available for federal income tax purposes net operating loss carryforwards of approximately $44,300,000, which commence expiring in years 2005 through 2012. SI also had net operating loss carryforwards amounting to approximately $13,217,000, the tax effect of which is included above. These loss carryforwards begin expiring in 2003 and their utilization by the Company will be subject to annual limitations. Research and development and other credit carryforwards amounting to approximately $2,035,000 are available to offset federal and state income taxes and expire in years 2005 through 2012. Under current tax law, the utilization of net operating loss carryforwards may be subject to annual limitations in the event of future significant changes in ownership.

9. STOCKHOLDERS' EQUITY

In November 1994, the Board of Directors declared a three-for-two stock split in the form of a 50% stock dividend effective November 28, 1994, for stockholders of record on November 14, 1994. All share and per share data have been restated to reflect the split.

STOCK-BASED COMPENSATION PLANS

Under APB 25 no compensation expense has been recorded. The Company has adopted the disclosure only option under Statement of Financial Accounting Standards (SFAS) 123 "Accounting for Stock-Based Compensation" as of March 31, 1997. Pro forma information regarding net income and earnings per share is required by SFAS 123, and has been determined as if the Company had accounted for its stock options under the fair value method of that Statement. Consistent with the method of SFAS 123, the Company's net loss and net loss per share would have increased to the pro forma amounts indicated below:

For the years ended March 31,		1997	1996
Net loss (in thousands)	As reported	$(13,377)	$(9,698)
	Pro forma	$(14,095)	$(9,871)
Loss per share	As reported	$ (1.27)	$(0.94)
	Pro forma	$ (1.34)	$(0.96)

The pro forma amounts included above combine the effects of the valuation of the stock options issued under various stock-based compensation plans of ASC together with the 1988 SI stock option plan. The following notes provide details concerning the stock option plans of ASC, the 1988 Stock Option Plan of SI, (the "1988 SI Plan") and SI stock purchase warrants.

Pursuant to the merger agreement, options outstanding under the 1988 SI Plan to purchase shares of SI common stock were converted into options to purchase shares of ASC common stock based on the merger exchange ratio of 0.3292 shares of ASC common stock for each share of SI stock.

The ASC stock option plans

The pro forma amounts include the effects of all activity under ASC's stock-based compensation plans since April 1, 1995. 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; a weighted average risk free interest rate of 6.4% and 5.5% in 1997 and 1996 respectively; expected stock price volatility of 45%; no dividends; and a weighted average life of the options of 5 years. The weighted average fair value of options granted during 1997 and 1996 was $5.02 per share and $6.42 per share respectively. The Company expects it will have additional activity under these plans in the future.

ASC has five stock option plans including two Directors' Plans. The stock option plans (the "Plans") include the 1987 Stock Plan (the "1987 Plan"), the 1993 Stock Option Plan (the "1993 Plan"), the 1996 Stock Incentive Plan (the "1996 Plan"), the 1991 Directors' Stock Option Plan (the "1991 Directors' Plan") and the 1994 Directors' Stock Option Plan (the "1994 Directors' Plan"). The Plans are administered by the Compensation Committee of the Board of Directors and permit the Company to sell or award common stock or to grant stock options for the purchase of common stock.

The Plans provide for the issuance of incentive stock options and non-qualified stock options to purchase the Company's common stock. In the case of incentive stock options, the exercise price shall be equal to at least the fair market value of the common stock, as determined by the Board of Directors, on the date of grant. In the event that non-qualified stock options are granted under the 1987 Plan, the exercise price shall be not less than the lesser of the book value per share of common stock at the end of the fiscal year preceding the date of grant or 50% of the fair market value at the time of grant.

The 1991 and 1994 Directors' Plans are stock option plans for members of the Board of Directors who are not also employees of the Company ("outside directors"). The 1994 Directors' Plan provides for the automatic grant of stock options for the purchase of common stock by outside directors at an exercise price equal to fair market value at the grant date. The 1991 Directors' Plan is no longer operative.

Options granted under the Plans generally become exercisable in equal annual increments over a four or five year period and expire 10 years from the date of grant or from two to three months after termination of employment.

The following table summarizes information about stock options outstanding at March 31, 1997.

	Outstanding			Exercisable	
Range of Exercise Price	Number Outstanding at 3/31/97	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 3/31/97	Weighted Average Exercise Price
$ .27 - 1.07	140,350	3.3	$ 0.44	140,350	$ 0.44
$ 6.23 - 9.75	894,765	8.4	$ 9.11	217,465	$ 7.48
$ 10.25 - 13.50	565,650	8.3	$12.47	152,370	$11.61
$ 14.00 - 18.50	404,400	7.5	$16.78	164,660	$17.25
$ 19.83 - 23.25	540,500	7.3	$21.72	222,050	$21.67
$ .27 - 23.25	2,545,665			896,895	

The following table summarizes the information concerning currently outstanding and exercisable options:

	Shares	Weighted average Exercise Price	Number Exercisable
Outstanding at March 31, 1994	979,935	$ 7.79	231,386
Granted	746,500	$20.89	
Exercised	(132,540)	$ 3.89	
Canceled	(49,410)	$14.02	
Outstanding at March 31, 1995	1,544,485	$14.25	375,495
Granted	482,600	$13.71	
Exercised	(19,660)	$ 1.44	
Canceled	(14,670)	$19.11	
Outstanding at March 31, 1996	1,992,755	$14.21	652,885
Granted	766,650	$10.43	
Exercised	(74,880)	$ 1.11	
Canceled	(138,860)	$17.49	
Outstanding at March 31, 1997	2,545,665	$13.28	896,895
Available for grant at March 31, 1997			934,810

The 1988 SI Stock Option Plan

Pro forma information relative to net loss has been determined using the "minimum value" method of SFAS 123. The fair value for these options was estimated at the date of the grant using the present-value method with the following assumptions for 1997 and 1996: risk-free interest rate of 6%; no dividends; and a weighted-average expected life of the options of 7 years. The minimum-value method was developed for use in estimating the minimum fair value of options for a non-public company.

In the following summary of the status of the 1988 SI Plan, each original option to purchase SI common stock has been converted to an equivalent number of options to purchase ASC stock by multiplying the original number of shares subject to options by the merger exchange ratio of 0.3292 and the corresponding original exercise prices have been converted by dividing by the same merger exchange ratio:

	Number of Options	Range of Exercise Price
Outstanding at January 1, 1994	164,550	$0.30 - 7.59
Granted	20,410	15.19
Exercised	(3,703)	0.76 - 3.04
Canceled	(2,058)	3.04 - 7.59
Outstanding at January 1, 1995	179,199	0.30 - 15.19
Granted	16,789	15.19
Outstanding at January 1, 1996	195,988	0.30 - 15.19
Granted	18,106	15.19
Exercised	(7,242)	0.30 - 0.76
Canceled	(32,697)	3.04 - 15.19
Outstanding at December 31, 1996	174,155	$0.30 - 15.19
Exercisable at December 31, 1996	99,632	$0.30 - 15.19

The following table details the weighted average remaining contractual life of options outstanding at December 31, 1996 using the equivalent ASC shares and ASC exercise prices:

Exercise Price	Number of Options Outstanding	Remaining Contractual Life of Options Outstanding
$ 0.30	19,423	2.23 years
$ 0.76	15,637	3.01 years
$ 3.04	10,147	4.52 years
$ 7.59	80,391	6.75 years
$15.19	48,557	8.59 years
	174,155	

At the time of the Merger options to purchase 172,427 shares of ASC common stock were issued in exchange for outstanding options under the 1988 SI Plan.

SI Stock Purchase Warrants

In 1993 and 1996 SI issued warrants to its convertible debenture holders to purchase 1,080,000 shares of common stock at $2.50 per share. These warrants were still outstanding at December 31, 1996. Holders of these warrants were allowed to exercise them on a cashless basis at the time of the Merger and received 83,484 shares of ASC common stock in the merger in exchange for the SI shares acquired upon exercise of such warrants.

Deferred compensation

The Company recorded an increase to additional paid-in capital and a corresponding charge to deferred compensation of approximately $127,000 in fiscal year 1993 related to the issuance of 10,000 shares of common stock. Compensation expense related to this and other prior stock transactions of approximately $25,000, $30,000, and $113,000 was recorded for the fiscal years ended March 31, 1997, 1996 and 1995, respectively.

10. COMMITMENTS

The Company rents its headquarters premises in Westborough, Massachusetts under an operating lease, the first term of which expires in May 1998. The Company has an option to extend this lease for two additional five-year periods. The Company also rents operating facilities near Madison, Wisconsin under a lease which expires December 31, 1998. Under both leases the Company pays for real estate taxes, certain insurance coverage and operating expenses.

In October 1992, the Company entered into a five-year collaborative technology development agreement with Superlink Joint Venture. The Company has the right to terminate this agreement under certain conditions.

Rent expense under the leases mentioned above and research and development expenses related to the technology agreement with Superlink Joint Venture included in the consolidated statements of income were as follows:

	1997	1996	1995
Rent expense	$520,850	$495,283	$481,984
Research and development expenses	$135,000	$150,000	$230,000

Minimum future lease and funding commitments at March 31, 1997 were as follows:

For the years ended March 31	Leases	Funding	Total
1998	$524,347	$50,000	$574,347
1999	$170,760	--	$170,760

11. RESEARCH AND DEVELOPMENT AGREEMENTS

In March of 1996 the Company extended its development contract with Pirelli, a Stockholder in the Company, to jointly develop high temperature superconducting cable wires. The Company terminated its development contracts with both Hoechst AG and Inco Alloys International in August 1994 and December 1996, respectively. The Company recorded revenues under these contracts as follows:

	1997	1996	1995
Inco	$ 825,000	$1,100,000	$1,100,000
Pirelli	2,500,000	2,831,000	1,000,000
Hoechst	--	--	500,000
	$3,325,000	$3,931,000	$2,600,000

Future funding commitments under the Pirelli contract are approximately $5,250,000 over the next two and one half years.

In March 1996, the Company entered into a new strategic alliance with the Electric Power Research Institute (EPRI) to develop and commercialize next-generation HTS wire. Under this agreement, warrants to purchase common stock of the Company will be granted to EPRI and become exercisable over the next five years. The Company will receive exclusive license rights to jointly-developed intellectual property from EPRI. This agreement is subject to early termination if certain conditions are not met. The Company recorded an increase to additional paid-in capital and a corresponding charge to deferred contract costs of $637,000 in fiscal 1997 relating to these warrants. Warrant expense related to this agreement was $80,000 for the fiscal year ended March 31, 1997.

12. COST SHARING ARRANGEMENTS

The Company has entered into several cost-sharing arrangements with various agencies of the United States government. These funds are used to directly offset the Company's research and development and selling, general and administrative expenses and to purchase capital equipment. The Company has recorded costs (including capital equipment purchases) and funding under these agreements of $3,197,000 and $1,706,000, respectively for fiscal 1997 and $2,590,000 and $985,000, respectively for fiscal 1996. At March 31, 1997, total funding received to date under these agreements was $5,853,000. Future funding expected to be received under existing agreements is approximately $6,355,000 over the next four years subject to continued future funding allocations.

13. RELATED PARTY TRANSACTIONS

In fiscal 1995 the Company made a series of loans to an officer of the Company in the aggregate amount of $671,000 including accrued interest. The Compensation Committee of the Board of Directors forgave $206,700 and $104,800 in fiscal years 1997 and 1996, respectively, of principal and accrued interest of the loans. In addition, the officer repaid $100,000 of principal in November 1996. The remaining principal and interest on the loan, which is approximately $331,000, is repayable on November 1, 1998.

14. EMPLOYEE BENEFIT PLANS

The Company has implemented two deferred compensation plans under Section 401(k) of the Internal Revenue Code. Any contributions by the Company are discretionary (none were made in fiscal 1997, 1996 or 1995). The Company does not have post-retirement or post-employment benefit plans.

15. WRITE DOWN OF INVENTORY AND EQUIPMENT

Pursuant to Statement of Financial Accounting Standards ("SFAS") 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", the Company recorded a provision of $407,000 included in the consolidated statements of operations in the year ended March 31, 1996. This provision was required to write down certain items of leased equipment to their estimated fair value.

In addition, provisions were recorded for certain work-in-process inventory of $445,000 and $768,000 for the years ended March 31, 1997 and 1996, respectively. These provisions were recorded due to the inventory not meeting required performance specifications.

Collectively, these provisions were included in costs of revenue for the years end March 31, 1997 and 1996.

16. SUBSEQUENT EVENTS

In April 1997, the Company entered into a strategic alliance agreement with an affiliate of Electricite de France ("EDF") under which EDF purchased one million shares of the Company's common stock at $10 per share. The Company intends to use the proceeds of this $10 million equity investment to accelerate the development and commercialization of HTS technology for uses specific to the electric utility industry.

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

17. NEW ACCOUNTING PRONOUNCEMENTS

In June 1997 the FASB issued Statement No. 130, "Reporting Comprehensive Income", which establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general purpose financial statements. This Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. This Statement is effective for fiscal years beginning after December 15, 1997. Management does not believe the implementation of this statement will have any significant effect on the Company's financial statements.

In June 1997 the FASB issued Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information", which establishes standards for the way public enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major business customers. This statement requires that a public business enterprise report financial and descriptive information about its reportable operating segments, which are components of an enterprise about which separate financial information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. This Statement is effective for financial statements for periods beginning after December 15, 1997. Management is evaluating this Statement to determine what information is required to be disclosed.

EXHIBIT 99.2

American Superconductor Corporation

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

American Superconductor Corporation (the "Company") was founded in 1987 to develop for commercialization high temperature superconducting ("HTS") wires and wire products. As the Company is moving toward commercialization of the technology, the Company is no longer reporting its financial statements as a development stage enterprise.

Results for all periods presented have been restated to reflect the acquisition of Superconductivity, Inc. ("SI"), a developer and manufacturer of low temperature superconductor products for the industrial power quality market. The Company completed the transaction on April 8, 1997, acquiring all the outstanding stock of SI by means of a merger of a subsidiary of the Company into SI, which is now being operated as a wholly-owned subsidiary of the Company. The transaction was accounted for as a pooling of interests. When referring to results for the Company prior to the merger the term "Former ASC" is used.

RESULTS OF OPERATIONS

FISCAL YEARS ENDED MARCH 31, 1997 AND MARCH 31, 1996

Revenues
Total revenues decreased to $10,551,000 in fiscal 1997 from $10,764,000 in fiscal 1996. The Former ASC's revenues from research and development contracts, prototype development contracts and the sale of prototypes increased to $7,175,000 in fiscal 1997 from $7,131,000 in fiscal 1996. This increase was due primarily to work performed on a research and development contract with Asea Brown Boveri (ABB) and increases in funding on various U. S. Government grants and prototype development contracts. This increase was largely offset by a drop in prototype sales associated with a major cable prototype on which the Former ASC concluded shipping HTS wire in the year ended March 31, 1996, and by the discontinuation (effective December 31, 1996) of the joint research and development program on metallic precursor wire technology with Inco Alloys International, Inc., which had been providing $1.1 million in annual funding.

At SI, revenues in fiscal 1997 were $3,376,000 compared to $3,633,000 in fiscal 1996. This decrease in revenues is due to the completion of a long-term cost-plus-fixed-fee government contract in September 1996, which was in progress during all of fiscal 1996. SI began an additional long-term government contract in October of 1996; however, revenue under this firm fixed-price contract will not be recognized until fiscal 1998. The decrease in SI's contract revenue (from a total of $2,762,000 in 1996 to $1,570,000 in 1997) was partially offset by SI's first commercial sale of a customer evaluation unit which generated $993,000 in revenue in fiscal 1997.

In addition to reported revenues, the Former ASC also received funding of $1,706,000 in fiscal 1997 under government cost-sharing agreements as compared to $985,000 in fiscal 1996. This increased cost-sharing funding was primarily due to the award of a $20.5 million Phase II Superconductivity Partnership Initiative (SPI) contract on commercial-scale HTS motors by the Department of Energy to the Company and Reliance Electric Company (a Rockwell Automation business). The Company expects to receive approximately $7.3 million over the next five years (including the year ended March 31, 1997) and Reliance expects to receive $2.9 million, with each company investing a corresponding amount of their own funds to bring the total program value to $20.5 million. The Company anticipates that a portion of its funding in the future will continue to come from cost-sharing agreements as the Company continues to develop joint programs with government agencies. Funding from government cost-sharing agreements is recorded as an offset to research and development and selling, general and administrative expenses, as required by government contract accounting guidelines, rather than as revenue.

Operating expenses
The Company's total operating expenses in fiscal 1997 were $23,345,000 compared to $21,796,000 in fiscal 1996. At the Former ASC, operating expenses increased to $18,035,000 in fiscal 1997 from $15,992,000 in fiscal 1996. Costs of revenue, which include costs of research and development contracts and costs of prototypes and prototype development contracts, increased to $7,508,000 in fiscal 1997 compared to $7,331,000 in fiscal 1996 at the Former ASC. This increase reflects expenditures to support the increase in contract and prototype development revenues, including the hiring of additional personnel and purchases of materials and equipment, partially offset by lower costs of revenue associated with the decreased sales of prototypes.

At SI, operating expenses decreased to $5,310,000 in fiscal 1997 from $5,804,000 in fiscal 1996. SI's cost of revenue decreased to $3,070,000 in fiscal 1997 from $4,222,000 in fiscal 1996. Included in cost of revenue are write-down provisions of $445,000 and $1,175,000 in fiscal 1997 and fiscal 1996 respectively. These provisions were required to adjust the carrying values of certain items of inventory and equipment to their market values.

Research and development ("R&D") expenses increased to $8,477,000 in fiscal 1997 from $5,704,000 the prior year. The Former ASC's R&D expenses were $7,709,000 in fiscal 1997 compared to $5,341,000 in fiscal 1996. This increase was due to the continued scale-up of the Former ASC's internal research and development activities including the hiring of additional personnel and purchases of materials and equipment. In addition to these expenses, a portion of the Former ASC's R&D expenditures related to externally funded development contracts has been classified as costs of revenue (rather than as R&D expenses). These R&D expenditures that were included as costs of revenue during fiscal 1997 and fiscal 1996 were $5,322,000 and $5,256,000, respectively. Additionally, R&D expenses that were offset by cost share funding were $879,000 and $584,000 in fiscal years 1997 and 1996, respectively. At SI, R&D expenses increased from $363,000 in fiscal 1996 to $769,000 in fiscal 1997 because a higher proportion of R&D expenses were classified as cost of revenue as a result of the higher funding by the government cost-plus-fixed-fee contract in fiscal 1996 because of the completion of the contract during fiscal 1997.

Selling, general and administrative ("SG&A") expenses were $4,291,000 in fiscal 1997 as compared to $4,538,000 in fiscal 1996. At the Former ASC, SG&A expenses decreased to $2,818,000 in fiscal 1997 from $3,319,000 in fiscal 1996. This was primarily the result of certain SG&A expenditures that were offset by the increased funding received under cost sharing agreements. The SG&A amounts offset by cost share funding at the Former ASC were $828,000 and $378,000 in fiscal years 1997 and 1996, respectively. SI's SG&A expenses increased from $1,219,000 in fiscal 1996 to $1,472,000 in fiscal 1997. This increase was principally due to an increase in selling expenses, primarily relating to the hiring of additional sales and marketing personnel to support the South African market and SI's expanding line of commercial products. In addition to these expenses, a portion of the Former ASC's SG&A expenditures related to externally funded development contracts has been classified as costs of revenue (rather than as SG&A expenses). SG&A expenditures included as costs of revenue during fiscal 1997 and fiscal 1996 were $2,186,000 and $2,075,000, respectively.

Non-operating expenses

Interest income decreased to $1,177,000 in fiscal 1997, as compared to $1,585,000 in fiscal 1996. This decrease primarily reflects lower cash, cash equivalents and long-term marketable securities balances available for investment as a result of cash being used to fund the Company's operations and to purchase capital equipment. Interest expense increased from $215,000 in fiscal 1996 to $356,000 in fiscal 1997 primarily due to SI's $1,200,000 convertible debenture financing. Other expense, net is comprised primarily of miscellaneous taxes net of gains on the disposition of excess capital equipment.

Merger related fees of $710,000 in fiscal 1997 related to the costs incurred through March 31, 1997 in connection with the Company's acquisition of SI, and consisted primarily of financial advisory and legal fees. In fiscal 1997 SI incurred professional fees relating to a terminated merger negotiation amounting to $670,000.

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

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

In October 1995, Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" was issued. The expense recognition provision encouraged by SFAS 123 would require fair-value based financial accounting to recognize compensation expense for employee stock option plans. The Company made a determination to elect the disclosure only alternative and accordingly the Company has disclosed the pro forma net loss and per share amounts in the notes to the financial statements using the fair value based method beginning in fiscal 1997, with comparable disclosures for fiscal 1996.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS 128), which is effective for fiscal years ending after December 15, 1997, including interim periods. Earlier application is not permitted. The Statement requires restatement of all prior-period earnings per share presented after the effective date. SFAS 128 specifies the computation, presentation, and disclosure requirements for earnings per share. The Company will adopt SFAS 128 in fiscal year 1998 and has determined the impact to be immaterial.

FISCAL YEARS ENDED MARCH 31, 1996 AND MARCH 31, 1995.

Revenues

Total revenues increased to $10,764,000 in fiscal 1996 from $8,593,000 in fiscal 1995. The Former ASC's revenues from research and development contracts, prototype development contracts and the sale of prototypes increased to $7,131,000 in fiscal 1996 from $4,270,000 in fiscal 1995. This increase was due primarily to the expansion of the corporate development contract with Pirelli Cavi S.p.A. and an increase in sales of prototypes. This increase was partially offset by the completion of work and related funding under a collaborative research and development agreement in August 1994.

The Former ASC also received funding of $985,000 in fiscal 1996 under government cost-sharing agreements as compared to $2,866,000 in fiscal 1995. This lower level of cost-sharing funding was primarily due to a decrease in work performed under several cost-sharing contracts with the Department of Energy and the Department of Commerce which were completed during fiscal 1996. This funding was recorded as an offset to research and development and selling, general and administrative expenses, as required by government contract accounting guidelines, rather than as revenue.

At SI, revenues decreased from $4,323,000 in fiscal 1995 to $3,634,000 in fiscal 1996. This decrease was attributable to lower revenues recognized on the cost-plus-fixed-fee contract ($3,356,000 in fiscal 1995 compared to $2,575,000 in fiscal 1996).

Operating expenses

The Company's total operating expenses in fiscal 1996 were $21,796,000, compared to $17,267,000 in fiscal 1995. At the Former ASC, operating expenses were $15,992,000, compared to $11,887,000 in fiscal 1995. Costs of revenue at the Former ASC, which include costs of research and development contracts and costs of prototypes and prototype development contracts, increased to $7,331,000 in fiscal 1996 compared to $4,397,000 in fiscal 1995. This increase reflects expenditures to support the increase in sales of prototypes, including the hiring of additional personnel and purchases of materials and equipment.

At SI, operating expenses increased from $5,379,000 in fiscal 1995 to $5,803,000 in fiscal 1996. This increase was primarily due to two factors affecting cost of revenue in fiscal 1996. These were a write-down of inventory and equipment that amounted to $1,175,000 which was partially offset by a decrease in other costs of revenue of $550,000 primarily resulting from the reduction in revenue from the government cost-plus-fixed-fee contract.

Research and development expenses increased to $5,704,000 in fiscal 1996 from $5,349,000 the prior year. This increase was due to the continued scale-up of the Company's internal research and development activities including the hiring of additional personnel and purchases of materials and equipment. In addition to these expenses, a portion of R&D expenditures related to externally funded development contracts has been classified as costs of revenue (rather than as research and development expenses). R&D expenditures included as costs of revenue during fiscal 1996 and fiscal 1995 were $5,256,000, and $3,032,000, respectively. Additionally, R&D expenses that were offset by cost share funding were $584,000 and $1,673,000 in fiscal years 1996 and 1995, respectively.

Selling, general and administrative expenses were $4,538,000 in fiscal 1996 as compared to $3,924,000 in fiscal 1995. This increase reflects increased staffing, recruiting costs, and legal costs associated with the signing of several corporate development agreements and other expenses necessary to support the overall increase in the Company's revenues, sales and marketing programs and internal research and development activities. In addition to these expenses, a portion of SG&A expenditures related to externally funded development contracts has been classified as costs of revenue (rather than as SG&A expenses). SG&A expenditures included as costs of contract revenue during fiscal 1996 and fiscal 1995 were $2,075,000 and $1,365,000 respectively. The SG&A amounts offset by cost share funding were $378,000 and $956,000 in fiscal years 1996 and 1995, respectively.

Non-operating expenses

Interest income decreased to $1,585,000 in fiscal 1996 as compared to $1,873,000 in fiscal 1995. This decrease primarily reflects lower cash, cash equivalents and long-term marketable securities balances available for investment as a result of cash being used to fund the Company's operations and to purchase capital equipment. Other expense, net is comprised primarily of miscellaneous taxes net of gains on the disposition of excess capital equipment.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 1997, the Company had cash, cash equivalents and long-term marketable securities totaling $16,031,000 compared to cash, cash equivalents and long-term marketable securities totaling $26,519,000 at March 31, 1996. In fiscal 1997, approximately $10,098,000 was used to fund the Company's operations. An additional $1,451,000 was used to acquire capital equipment, primarily for research and development and manufacturing, and to make leasehold improvements to its facilities.

On April 7, 1997, the Former ASC entered into a strategic alliance agreement with an affiliate of Electricite de France (EDF) under which EDF purchased one million shares of the Company's common stock at $10 per share. The Company intends to use this $10,000,000 equity investment by EDF, which is not included in the Company's cash balance as of March 31, 1997, to accelerate the development and commercialization of HTS technology for uses specific to the electric utility industry.

On April 8, 1997, the Company completed the Merger with SI. The transaction was effected through the exchange of 942,961 shares of the Company's common stock for all of the issued and outstanding shares of SI, based on a Merger exchange ratio of .3292 shares of Company common stock for each share of SI common stock. As a result of the Merger, the Company also assumed approximately $6.4 million of SI's liabilities, approximately $3.9 million of which were paid in April, 1997.

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

The Company has potential funding commitments of approximately $15,437,000 to be received after March 31, 1997 from strategic partners and government agencies (all of which is due within the next four years). However, a total of $10,187,000 of these commitments (representing commitments under government contracts) is subject to cancellation.

The Company's policy is to invest available funds in short-term, intermediate-term, and long-term investment grade marketable securities, including but not limited to government obligations, repurchase agreements, certificates of deposit and money market funds.

Transaction gains and losses from foreign currency transactions have not been material to date.

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

FUTURE OPERATING RESULTS

The Company does not provide forecasts of its future financial performance. However, various statements included herein, as well as other statements made from time to time by Company representatives, which are not statements of historical facts (including but not limited to statements concerning the future commercial success of the Company) 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 the Company's 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.

The Company's products are in the early stages of commercialization and testing and there can be no assurance that these products will be technically or commercially successful or that the Company will be able to manufacture adequate quantities of its products at commercially acceptable cost levels or on a timely basis. The Company believes that several years of further development will be necessary before HTS wires and wire products will be available for significant commercial end-use applications.

On April 8, 1997, the Company completed the Merger with SI, a developer and manufacturer of low temperature superconductor products for the industrial power quality market. The Company believes the acquisition of SI provides the Company with a strong commercial presence in this market. However, there can be no assurance that this Merger will produce the benefits anticipated by the Company.

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

The Company expects that some or all of the HTS materials used in manufacturing its products, and certain of the methods used by the Company in processing HTS materials, are or will become covered by patents issued to other parties (who may include competitors of the Company). Accordingly, the Company will need to acquire licenses to, or successfully contest the validity of, such patents in order to avoid patent infringement claims being brought against it. Although the Company expects that it will be able to obtain, on commercially reasonable terms, any required licenses, there can be no assurance that it will be able to do so. If the Company does not obtain such licenses, the Company may be forced to contest the validity of such patents or may face an infringement claim by the owners of such patents. The outcome of any such litigation is impossible to predict with certainty, and, regardless of its outcome, the Company may incur substantial costs in connection with any such litigation. The Company generally relies on a combination of patent protection and trade secret law to protect its proprietary technology. There can be no assurance that the steps taken by the Company to protect its technology will be adequate to prevent misappropriation by third parties or that third parties will not be able to independently develop similar technology.

The HTS industry is characterized by rapidly advancing technology and the Company encounters intense competition in the development of HTS products, particularly from several major Japanese companies, including Sumitomo Electric Industries, Ltd., Showa Electric Wire & Cable Co., Ltd., Hitachi, Ltd., Hitachi Cable, Ltd., Furukawa Electric Co., Ltd., Fujikura Ltd., Mitsubishi Electric Corporation, and Kobe Steel, Ltd. Other competitors include Siemens A.G. in Germany, B.I.C.C. and Oxford Instruments in England, Alcatel-Alsthom in France, NKT in Denmark, and Intermagnetics General Corporation, Midwest Superconductivity, Inc., and 3M in the United States. The future success of the Company will depend in large part on its ability to keep pace with advancing HTS technology and such industry standards as may develop. There can be no assurance that the Company's development efforts will not be rendered obsolete by research efforts and technological advances made by others. Moreover, many of the Company's competitors have substantially greater financial resources and research and development, manufacturing and marketing capabilities than the Company. In addition, as the HTS industry develops, it is possible that other large industrial companies may enter this field.

The Company believes that revenues from funded development contracts and the sale of prototypes, together with its current cash and marketable securities, should provide adequate funding to meet the Company's cash requirements for its planned operations for at least the next year. Thereafter, the Company may need substantial additional funds for its research and development programs, operating expenses, licensing fees, scale-up of manufacturing capabilities, expansion of sales and marketing capabilities, potential acquisitions and working capital. Moreover, the Company may need additional funds sooner than anticipated if the Company's performance deviates significantly from its current operating plan or if there are significant changes in competitive or other market factors. There can be no assurance that such funds, whether from equity or debt financing, development contracts or other sources, will be available on terms acceptable to the Company. Insufficient funds may require the Company to reduce, delay or eliminate certain research and development activities or to license or sell to others certain proprietary technology, which could delay, either temporarily or permanently, the development of certain products and technologies currently under development by the Company.

For the Company to be financially successful, it must manufacture the products developed by it in commercial quantities, at acceptable costs and on a timely basis. The production of significant quantities at competitive costs presents a number of technological and engineering challenges for the Company, and significant start-up costs and unforeseen expenses may be incurred in connection with attempts to manufacture commercial quantities of the Company's products. In addition, the Company will be required to develop a marketing and sales force that effectively demonstrates the advantages of its products over more traditional products. The Company may also elect to enter into agreements or relationships with third parties regarding the commercialization or marketing of its products. There can be no assurance that the Company will be successful in its marketing efforts, that it will be able to establish adequate sales and distribution capabilities, that it will be able to enter into marketing agreements or relationships with third parties on financially acceptable terms, or that any such third parties will be successful in marketing the Company's products.