

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

FOR THE FISCAL YEAR ENDED MARCH 31, 1998
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 0-19672

AMERICAN SUPERCONDUCTOR CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE 04-2959321
(STATE OR OTHER JURISDICTION OF (I.R.S. EMPLOYER IDENTIFICATION NUMBER)
INCORPORATION OR ORGANIZATION)

TWO TECHNOLOGY DRIVE,
WESTBOROUGH, MASSACHUSETTS 01581
(ADDRESS OF PRINCIPAL EXECUTIVE (ZIP CODE)
OFFICES)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (508) 836-4200

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: COMMON STOCK, \$.01
PAR VALUE

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to the
best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K.

On April 30, 1998, the aggregate market value of voting Common Stock held
by nonaffiliates of the registrant was \$199,641,072 based on the closing price
of the Common Stock on the Nasdaq National Market on April 30, 1998.

The number of shares of Common Stock outstanding as of April 30, 1998 was
15,272,874.

DOCUMENTS INCORPORATED BY REFERENCE

DOCUMENT -----	FORM 10-K PART -----
Definitive Proxy Statement with respect to the Annual Meeting of Stockholders for the fiscal year ended March 31, 1998, filed with the Securities and Exchange Commission.	Part III

TABLE OF CONTENTS

ITEM		PAGE
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	PART I	
1.	Business.....	2
2.	Properties.....	14
3.	Legal Proceedings.....	14
4.	Submission of Matters to a Vote of Security Holders.....	14
	PART II	
5.	Market for Registrant's Common Stock and Related Stockholder Matters.....	16
6.	Selected Financial Data.....	16
7.	Management's Discussion and Analysis of Financial Conditions and Results of Operations.....	16
8.	Financial Statements and Supplementary Data.....	16
9.	Changes and Disagreements with Accountants on Accounting and Financial Disclosure.....	17
	PART III	
10.	Directors and Executive Officers of the Registrant.....	17
11.	Executive Compensation.....	17
12.	Security Ownership of Certain Beneficial Owners and Management.....	17
13.	Certain Relationships and Related Transactions.....	17
	PART IV	
14.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K.....	17

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. For this purpose, any statements contained herein that do not relate to historical matters, including without limitation, the statements under "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and located elsewhere herein regarding industry prospects and the Company's prospective results of operations or financial position, may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements. Such forward-looking statements represent management's current expectations and are inherently uncertain. The important factors discussed below under the caption "Management's Discussion and Analysis of Financial Conditions and Results of Operations -- Future Operating Results," among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time.

ITEM 1. BUSINESS

American Superconductor Corporation (the "Company") is an industry leader in developing, manufacturing and marketing products utilizing superconducting materials for electric power applications. Electrical products that incorporate superconducting wires can be more efficient, compact and cost effective than those utilizing conventional copper wires. Products incorporating superconducting materials are currently utilized in the medical, electronics, power equipment and transportation industries.

Superconducting wires provide significant advantages over conventional copper wires because superconducting wires conduct electricity with little or no resistance and associated energy loss, and can transmit much larger amounts of electricity than conventional wires of the same size. The Company's development and commercialization efforts have been focused on electrical products and equipment utilizing superconductors for use in the electric power industry. According to industry sources, it is estimated that in the year 2010, worldwide products based on superconductors that are sold to the electric power industry will generate approximately \$12 billion of revenues.

SUPERCONDUCTIVITY

A superconductor is a perfect conductor of electricity; it carries direct current with 100% efficiency because no energy is dissipated by resistive heating. Once induced in a superconducting loop, direct current can flow undiminished forever. Superconductors can also conduct alternating current, but with some slight dissipation of energy.

Superconductors lose all resistance to the flow of direct electrical current and nearly all resistance to the flow of alternating electrical current when cooled below a critical temperature, which is different for each superconducting material. Superconducting materials known today, including both high temperature superconductor ("HTS") and low temperature superconductor ("LTS") materials, need to be cooled to cryogenic temperatures in order to exhibit the property of superconductivity.

[Superconductivity Graph]

This graph illustrates the complete loss of resistance to the flow of electricity through wires of an LTS material (niobium-titanium alloy) and an HTS material (bismuth-based, copper oxide ceramic) at the critical temperature, $T(c)$, which is different for each superconducting material. The specific HTS material in this chart has no electrical resistance below 108K (-265 degreesF), as opposed to the specific LTS material in this chart, which has no electrical resistance below 10 K (-441 degreesF).

A combination of three conditions must actually be met for a material to exhibit superconducting behavior:

- The material must be cooled below a characteristic temperature, known as its superconducting transition or critical temperature ($T(c)$);
- The current passing through a given cross-section of the material must be below a characteristic level known as the critical current density ($J(c)$); and
- The magnetic field to which the material is exposed must be below a characteristic value known as the critical magnetic field ($H(c)$).

These conditions are interdependent, and define the environmental operating conditions for the superconductor.

[Superconducting Graph]

Not only must a superconducting material be cooled below its critical temperature, $T(c)$, to lose all resistance to the flow of electricity, but also the amount of current flowing through a given cross sectional area of superconducting wire must not exceed a critical amount, the critical current density, $J(c)$, and the magnetic field to which the superconductor is exposed must not be above a critical level, H_c . The key focus of the Company's HTS development program is to increase the critical current density of its wires through research advancements and through optimization of its wire manufacturing methodologies.

The initial discovery of superconductive materials was made in 1911. Before 1986, the critical temperatures for all known superconductors did not exceed 23 Kelvin (23K or -418 degrees Fahrenheit; 0K is absolute zero, or -459 degrees Fahrenheit). Before the discovery and development of HTS materials, the use of superconductivity had not been practical for widespread commercial applications, except for magnetic resonance imaging ("MRI") and superconducting magnetic energy storage ("SMES") applications, principally because commercially available superconductors (i.e., LTS materials) are made superconductive only when these materials are cooled to near 0K. Although it is technologically possible to cool LTS materials to a temperature at which they become superconductive, broad commercialization of LTS materials has been inhibited by the high cost associated with the cooling process. For example, liquid helium, which can be used to cool materials to about 4K (-452 degrees Fahrenheit), and which has been commonly used to cool LTS materials, is expensive and relatively costly to maintain.

In 1986, a breakthrough in superconductivity occurred when two scientists, Dr. K. Alex Muller, who is currently under contract as a consultant to the Company, and Dr. J. Georg Bednorz, at an IBM laboratory in Zurich, Switzerland, identified a ceramic oxide compound which was shown to be superconductive at 36K (-395 degrees Fahrenheit). This discovery earned them the Nobel Prize for Physics in 1987, which is one of the four Nobel Prizes that have been awarded for work on superconductivity. A series of related ceramic oxide

compounds which have higher critical temperatures were subsequently discovered, including those being used by the Company.

APPLICATIONS AND MARKETS FOR SUPERCONDUCTORS

Wire is an integral component of most products that transmit, transfer or utilize electricity. Superconducting wires provide significant advantages over conventional wires because superconducting wires conduct electricity with little or no energy loss, which enables them to transmit much larger amounts of electricity than conventional wires of the same size. These underlying characteristics lead to the potential for more efficient, smaller and lighter electrical products and equipment, such as motors, generators, power transmission cables, and transformers. Deregulation of the electric power industry, which is an increasing trend in the United States and certain other countries, may enhance the potential market for superconducting wires by providing opportunities in markets that were not previously open to the Company.

Because the superconducting wire in a coil of this material exhibits no resistance to the passage of electrical current, large amounts of electricity can be stored in coils of superconducting wire, and because the wire coil has no electrical resistance, the stored electricity can be removed from the coil very rapidly. These features provide the basis for the Company's line of SMES systems utilizing LTS electromagnets ("LT-SMES"). The Company's LT-SMES power quality products are currently being sold or leased to industrial users of power to prevent factory downtime and loss of "work in process" caused by momentary dips in voltage that occur in power distribution networks.

LTS products are used in a number of applications, including MRI diagnostic equipment, which currently represents the single largest commercial use of LTS materials, commercial magnetic separation equipment, commercial SMES power quality products, commercial laboratory electromagnets and electromagnets used in particle accelerators. The Company's development efforts with respect to LTS products are focused on commercial SMES power quality products. LTS products have been under development since the early 1960s and LTS technology is relatively mature as compared with HTS technology. However, commercial acceptance of LTS products in power applications other than SMES systems has been significantly limited by the cooling requirements of LTS materials. LTS materials generally require costly cooling by liquid helium at nearly the absolute zero temperature or cooling by cryocoolers at below 10 K (-441 degrees Fahrenheit).

In contrast, HTS wires maintain their superconductivity at higher temperatures than LTS wires. They can be cooled with liquid nitrogen or closed-cycle refrigerators at temperatures above 20 K (-423 degrees Fahrenheit), which are much less expensive and easier to utilize than liquid helium. Closed-cycle refrigerators operate in much the same way as household refrigerators, but because of their lower operating temperature they are somewhat more complicated to build and maintain. Specially designed closed-cycle refrigerators have been used by the Company to cool a variety of commercial and developmental HTS electromagnets. It is presently anticipated that HTS power cables would be cooled by maintaining liquid nitrogen within hollow cores of an HTS cable, and/or by flowing liquid nitrogen around the power cables, much the same as oil is now maintained within the cores of some conventional underground power cables and used to cool power cables maintained within steel pipes under the streets of cities.

The Company anticipates that HTS motors and generators would be cooled by cryocoolers, without the presence of a liquid cryogen, such as liquid nitrogen. However, it is anticipated that HTS transformers would be cooled by submerging the HTS coils in liquid nitrogen, with the nitrogen maintained at temperature by a closed cycle refrigerator. In this application, the liquid nitrogen acts both as a coolant and as an electrical insulating medium, or dielectric. Therefore, HTS products may replace or compete with LTS products in certain applications in which LTS products are currently used and the Company believes that the less demanding cooling requirements of HTS materials will permit their use in a broad range of applications not currently available to LTS products.

The Company is currently focusing on two markets for superconductivity products: the industrial power quality market, for which the Company currently manufactures and markets commercial industrial power quality systems and services; and the market for other electric power products, for which the Company is currently developing a number of HTS products.

Industrial Power Quality Systems and Services

The Company has focused initially on SMES systems as its product platform to address the need for solutions for industrial power quality problems, which industry sources estimate cost U.S. industry alone more than \$10 billion per year in factory downtime. Protection against power quality problems such as momentary (typically less than two seconds) voltage sags can provide significant economic value to large industrial users of power. SMES systems are designed to protect industrial customers from the adverse effects of voltage sags by releasing large quantities of power within a fraction of a cycle to normalize the degraded incoming power supply. It is estimated that more than 80% of all power quality events, including brownouts and blackouts, are less than two seconds in duration. With large energy storage capacities and fast recharging capabilities, SMES systems can provide a solution to momentary aberrations in power quality.

In April 1997, the Company acquired Superconductivity, Inc. ("SI"), a manufacturer of SMES power quality systems based on LTS electromagnets. The Company believes that this acquisition provides it with a strong presence in the industrial power quality market, and will allow it to accelerate its plan to penetrate this sector of the market. The Company is currently expanding sales and marketing and manufacturing capacity for its existing SMES-based power quality products. The Company also plans to expand its current SMES product line and to introduce high temperature SMES ("HT-SMES") products within three to five years. The Company is also incorporating its HTS current leads product into its LT-SMES products in order to reduce systems manufacturing costs and to improve the efficiency of operation of the LT-SMES products.

The Company introduced two commercial SMES-based products in calendar year 1997. Both are designed to provide instantaneous boosts in voltage, either within individual pieces of electrical equipment, such as motor drives, or to power lines supplying industrial users of power, in both cases to prevent factory downtime caused by momentary dips in voltage that occur in distribution power networks. The Company also has units at customer sites that are designed to prevent factory downtime and lost work in process caused by momentary (typically less than one to two seconds) outages (a dip in voltage to zero), which also occur on power distribution networks. The Company has sold or leased nine SMES units, which are currently located at customer sites in the United States and in South Africa.

The Company is developing multiple channels to market for its power quality products, including, but not limited to, distributors, OEMs and direct sales. The Company has a distribution agreement with Eskom, the largest utility in Africa, to distribute the Company's power quality products exclusively in South Africa.

The Company currently offers a service component of its industrial power quality business that assesses the power quality needs of industrial sites, and provides extended warranties. The Company plans to expand this portion of its industrial power quality business area.

HTS Electric Power Products

HTS electric power products under development include power transmission cables, motors, transformers, generators and SMES systems. The Company's development efforts for this market segment are focused on HTS wires and products made from these wires, such as electromagnetic motor coils integrated with appropriate cryogenic cooling systems. The Company's revenues in this business area currently come primarily from research and development contracts, including governmental contracts, prototype sales and funds from corporate partners Pirelli Cavi E Sistemi S.p.A. ("Pirelli"), Electricite de France ("EDF") and ABB Power Transmission and Distribution Company ("ABB"). See "Business -- Strategic Relationships, Research Arrangements and Government Contracts."

The Company has produced and sold prototype HTS wires and electromagnetic coils for use in several development and demonstration programs. Nevertheless, significantly better strength, flexibility, and electrical performance need to be achieved, over longer wire lengths, and at lower costs, for the commercialization of HTS wire and wire products to be successful. Despite the advances being made, to date neither the Company nor, to the Company's knowledge, any other company has produced HTS wires in commercial quantities adequate for the electrical equipment market, and hurdles to commercialization continue to exist.

The Company's strategy is to develop its HTS products through a combination of internally funded and customer-, and government-sponsored programs, as well as through other research programs, and to market these products through strategic partners or directly through its sales and marketing organization. In addition

to its strategic alliances with Pirelli, EDF and ABB, the Company has established research arrangements with several US National Laboratories and with Industrial Research Limited, and is currently a party to development contracts with several U.S. government agencies to build prototype HTS electromagnetic coils. As the Company develops HTS electric power applications and industrial power quality systems and services, it expects to continue to pursue strategic acquisitions to enhance its market position, add value to its product line and strengthen its technology base. In April 1997, the Company acquired SI in order to establish a presence in the industrial power quality market; in July 1997, the Company acquired Applied Engineering Technologies, Ltd. ("AET") in order to strengthen its core capabilities in cryogenic engineering. The Company has sold several prototype HTS products to private-sector companies, including HTS wires to ABB Secheron SA and Pirelli, HTS motor coils to Rockwell Automation, an HT-SMES system to E.-U.-S. GmbH of Germany, and an HTS accelerator magnet system to Alphatech International. It has also sold HTS coils to U.S. government laboratories, including HTS generator coils to Wright-Patterson Air Force Base, and a high field (7 Tesla) research magnet to the Naval Research Laboratory. The Company is selling HTS current leads commercially to a variety of customers including MRI manufacturers and particle accelerator laboratories.

If the Company is successful in developing its HTS technology for commercial applications, the Company intends to bring the following product lines to market in the next several years.

Wires for Power Transmission Cables. In cooperation with Pirelli, the Company is developing HTS wires for underground HTS cables designed to provide more efficient and economical ways for utilities to transmit power. Underground power cables using HTS wires have the potential to carry two to five times more power than cables of the same size made from copper wires. The use of HTS wires would therefore result in more efficient transmission, more effective use of existing rights of way, reduced environmental stress and cost-effective replacement of worn-out infrastructure. This is very attractive both to urban planners who need to retrofit aging infrastructures with increased power capacity and to suburban engineers who find it increasingly difficult to secure clearance for overhead transmission lines. At least two underground copper cables are required to replace one equally rated overhead transmission line, whereas a single HTS cable could replace one equally rated overhead line. Moreover the liquid nitrogen used to cool underground HTS cables is less expensive and presents less environmental risks than the oil used to cool copper cables. The Company expects that the first significant demonstration of utility networks utilizing HTS-based power transmission cables will occur in 2000 and that the first sales of its HTS wire for such applications will occur in 2001.

Coils for Motors and Generators. The Company is designing, developing and fabricating HTS rotor coils and cryocoolers for use in high-horsepower electric motors with the potential for use in industrial and utility applications. HTS motors utilizing these rotor coils are expected to be half the weight and size of conventional motors and would provide greater operating efficiency. Since industrial electric motors consume most of the electricity used in a typical manufacturing operation, increased efficiency should yield significant savings in power costs. The Company and Reliance Electric Company, a Rockwell Automation business, are developing 1,000 and 5,000 horsepower (hp) motors under a U.S. Department of Energy Superconductivity Partnership Initiative. The Company expects the 1,000 hp motor to be in initial laboratory tests in early 1999 and to be installed in an industrial site during the second half of 1999. The Company expects that the first sales of its HTS rotor coils and cryocoolers for these motors for commercial applications will occur in 2001.

Cables for Transformers. In cooperation with ABB, one of the largest transformer suppliers in the world, and EDF, the Company is developing alternating current HTS transformer wire that can be used for fabrication of HTS transformers. Utilities and industrial power customers use transformers to increase and decrease voltage levels. HTS transformers are expected to offer a number of improved features relative to conventional transformers as well as entirely new functionality with important utility systems benefits. HTS transformers are expected to be half the size and weight of conventional transformers, which would increase existing substation capacity, reduce land area needed for new substations, and greatly relieve transportation challenges currently faced by electric utilities for conventional transformers. In addition, HTS transformers would replace the dielectric oil which surrounds the copper coils in today's power transformers with low-cost, environmentally-safe liquid nitrogen, which would eliminate the spill risks associated with dielectric oil. This is expected to lower associated insurance costs and allow transformers to be installed closer to large load centers even within large cities. The Company expects that the first sales of its HTS transformer wires or cables for commercial applications will occur in 2002.

In addition to the products described above, the Company plans to develop fault current limiters, which would instantaneously protect a power grid from electric surges caused by lightning, short circuits and other common fluctuations. If this product development is successful, the Company may manufacture and sell fault current limiter systems. The Company expects that the first sales of this product for commercial applications will occur in 2002.

Ultimately, if successful in developing HTS technology for commercial power transmission and distribution products and equipment, the Company intends to introduce and market these HTS products primarily through strategic partners and original equipment manufacturers ("OEMs"). However, there can be no assurance that the Company will be successful in overcoming the technological hurdles to the development of these products or that it will be able to successfully market and sell any products developed.

HTS DEVELOPMENT

Since its inception, the Company's main efforts have been directed towards the development of HTS wire and its applications, primarily in the electric power sector, including electric utilities and industrial users of electric power. In late 1987 the Company developed its first length of current-carrying HTS wire. In 1989 the Company added electromagnetic coils, electromagnets and multistrand conductors to its development program, and in December 1989 the Company sold its first prototype coil to a commercial customer. Since commencing operations in 1987, the Company has been able to significantly increase both the length and the current-carrying capacity of its HTS wires as well as the magnetic field strength generated by its HTS electromagnetic coils.

The Company has chosen to focus on HTS wires and HTS wire products (rather than HTS electronics applications) because it believes that HTS wires and wire products offer the largest potential commercial market in the HTS field. The Company is not devoting any efforts to the discovery of new HTS materials. The Company primarily focuses on processing the most promising of the HTS materials available into wires and from these wires, manufacturing components and subsystems, such as multistrand conductors, electromagnetic coils and electromagnets. In some cases, higher level integration is performed in collaboration with or by the Company's customers and/or strategic partners. In other cases, the Company itself integrates these subsystems into a full cryogenic and electrical system, using its cryogenic and power electronics expertise.

The Company has obtained patent licenses for a number of HTS materials. The Company expects to be required to obtain additional licenses with respect to these or other known HTS materials. In addition, as new HTS materials are discovered, the Company expects that patent or other proprietary rights will be asserted with respect to such materials, and that the Company may be required to obtain licenses for the use of such materials. While the Company is optimistic that it will be able to obtain such licenses, there can be no assurance of this, and even if such licenses can be obtained the costs of obtaining such licenses may be substantial. See "Business -- Patents, Trade Secrets and Licenses -- Patents and the Choice of HTS Materials" and "-- Patents and the Processing of HTS Materials." Furthermore, the Company's ability to apply its wire processing and component and subsystem manufacturing processes to newly discovered HTS materials will depend on the nature of the materials, although the Company believes that its manufacturing processes are sufficiently generic that they can be adapted to newly discovered HTS materials.

STATUS OF HTS WIRE DEVELOPMENT

During the last several years considerable progress in the development of HTS wire has occurred, both at the Company and at other institutions and companies worldwide. There remain, however, significant technical hurdles that will need to be overcome before HTS wires can be produced in commercial amounts for the full range of potential applications. For commercial applications, the critical current density of long wire lengths will need to be increased further from present levels to higher levels already demonstrated on short-length research samples. In addition, the wire will need to be able to be wound in a variety of shapes to create multistrand conductors, electromagnetic coils and electromagnets without loss of the wire's critical current density during winding. The wire also will need to be able to withstand forces arising from the interplay of its own current with a surrounding magnetic field. For alternating current magnet and coil applications, special conductor architectures will need to be developed. In January 1998, the Company announced a significant program in collaboration with ABB and EDF to develop such architectures.

The HTS wires used in the electromagnetic coils, electromagnets and multistrand conductors will need to have critical current densities in the superconducting filament of the wires (excluding any metal sheathing, strengthening members, etc.) in the range of 30,000 to 100,000 Amperes per square centimeter (A/cm²) in the magnetic field required for the application. Most applications will require magnetic fields in the range of 0.1 to 5 Tesla (a typical LTS magnet in an MRI system operates at about 0.5 to 1.5 Tesla; a kitchen magnet typically has a magnetic field of less than 0.05 Tesla).

Research samples of HTS wires have already exhibited sufficient current density in very high magnetic fields to enable applications to be developed. The Company has reported that short lengths of multifilamentary HTS wires (typically one centimeter) produced on a laboratory scale have filament critical current densities of 100,000 A/cm² in a magnetic field of up to 3 Tesla at 20 K (-423 degrees Fahrenheit). The challenge is to produce cost effective wires with these electrical properties by high-volume manufacturing processes in long lengths (typically greater than 10,000 feet) and with the flexibility, strength and durability required to fabricate and utilize multistrand conductors, electromagnetic coils and electromagnets in end-use applications.

The Company has made considerable progress in achieving these combined goals; it routinely manufactures wire in greater than five-hundred-foot lengths with over 10,000 A/cm² at 77K over the full cross-sectional area of the composite wire, with the actual current density in the superconducting filaments reaching three times this level. This represents an advance by a factor of two in performance of the Company's wires in the last two years. An earlier generation of the Company's wires was incorporated into a number of demonstration products. In 1996, Pirelli built and demonstrated a 50 meter cable conductor that carried 3,300 Amperes of direct current, and Rockwell Automation built and demonstrated a 286 horsepower HTS motor utilizing rotor coils fabricated by the Company. The Company's wire was also incorporated into an HTS transformer prototype built by ABB, which was installed in the headquarters building of the electric utility of Geneva, Switzerland and operated from March 1997 to December 1997. However, considerable progress is still required to meet the commercial needs of electric power and high-field magnet customers. The Company believes that several years of further development will be necessary before HTS wires and wire products are available for significant commercial end-use applications, although HTS wires of sufficient performance are now available for the Company's commercial current leads.

In addition to the technical hurdles described above, there are energy losses when alternating current is employed in a superconductor (as opposed to the zero loss that occurs when the superconductor carries direct current), and it has been established in LTS wires that these losses can be reduced in a multifilamentary configuration. While the Company has produced prototype multifilamentary composite wires, the superconducting and mechanical properties of such wires will need to be improved before they can be used for commercial alternating current magnet applications. The Company has been engaged in a research and development program, with partial funding of this program coming from both EDF and ABB, to develop wires specifically for these applications. However, there can be no assurance that the Company will succeed in developing this technology for commercial use. The Company has applied for patents on its developments in this area. However, the Company may be required to obtain patent licenses from third parties in order to utilize certain aspects of this technology. While the Company is optimistic that it will be able to obtain such licenses, there can be no assurance of this, and if such licenses can be obtained, the license fees may be substantial. See "Business -- Patents, Trade Secrets and Licenses."

THE COMPANY'S HTS COIL, MAGNET, CONDUCTOR, CRYOINTEGRATION AND POWER ELECTRONICS DEVELOPMENT

Simultaneously with its development of HTS wires, the Company is engaged in the development of electromagnetic coils, electromagnets and alternating current cables using these wires, and the integration of these products with related cooling systems (known as "cryointegration"). Electromagnetic coils are wire-wound structures such as those used in the rotors or stators of electric motors; electromagnets are coils used to produce a magnetic field, such as that required for MRI. Alternating current cables are bundles of HTS wires woven together to form a long conducting body, such as that needed for alternating current applications such as power transformers.

The Company's HTS prototype coils, electromagnets and conductors are made from multifilamentary wires. This form of wire, which is more flexible and durable than single filament wires that contain the same amount of superconductor, can permit winding with no further high temperature heat treatment being

required (referred to as the "react and wind" method). The Company believes that this approach permits more versatile application of its wires to a variety of prototypes, although the alternative method, the "wind and react" technique, may be appropriate in certain circumstances. The "wind and react" technique, which can also use multifilamentary wires, means that an additional heat treatment is required after winding a coil, electromagnet or cable. Both techniques are being utilized by the Company.

The Company has demonstrated increasingly advanced prototypes of electromagnetic coils and multistrand conductors, including an electromagnet that produces a magnetic field of 7 Tesla at 27K (-411 degrees Fahrenheit) when cooled by a mechanical cryocooler, which magnetic field exceeds significantly the maximum field (2 Tesla) obtainable from iron. The principal hurdle to increased commercial use of this technology is to lower the cost of the system. The Company believes that this can be achieved through the development of more efficient manufacturing systems for its coils, cryogenics and systems integration, and through the further reduction in the cost of HTS wire. Longer term, the Company believes that the introduction of HTS "coated conductor" wire will lead to more significant cost reductions. See "-- HTS Wire Production Processes."

The Company has also developed and is selling current leads that incorporate the Company's multifilamentary wires, and which, as compared to normal metal current leads, reduce the heat leak into, and the heat generated in, cryogenic systems operating at temperatures below 77K (-321 degrees Fahrenheit).

The Company is also developing improvements to its SMES-based industrial power quality products and enhancing and expanding its SMES product line. It is working to decrease the cost of these products by introducing HTS current leads to simplify the cryogenic system, by improving the cryostat and by upgrading the magnet design. It is also seeking to expand the functionality of these products by developing new power electronics to provide higher voltage capability and dc-to-ac conversion, and to reduce the costs of the power electronics components of the SMES products. There can be no assurance that the Company will succeed in reducing the costs of SMES systems sufficiently to create a significantly larger market.

HTS WIRE PRODUCTION PROCESSES

The Company produces HTS wires by a variety of techniques. The principal technique involves deformation processing, which is in some respects closely analogous to the technique used in the existing metal wire industry. In this approach a metal tube, typically silver, is packed with a precursor powder and sealed to form a "billet." The billet is then deformed into a wire shape by a variety of classical deformation processing techniques: extrusion, wire-drawing, multifilamentary bundling and rolling. Finally, the wire is heat-treated to transform the precursor powder inside the wire into a high-temperature superconductor. The resulting multifilamentary composite structure, consisting of many fine superconducting filaments imbedded in a metal matrix, is considered by the Company to be a preferred method of achieving flexibility and durability in its wires and wire products. This composite structure is the subject of a patent owned by MIT, based on an invention by Dr. Gregory Yurek, Chairman of the Board, President and Chief Executive Officer and a founder of the Company and at the time a professor at MIT, and Dr. John Vander Sande, a professor at MIT, a director and a founder of the Company, which patent is licensed to the Company on an exclusive basis until 2010 in return for license fees and shares of the Company's Common Stock. See "Business -- Patents, Trade Secrets and Licenses."

The Company has pursued two basic approaches to the deformation processing of silver-sheathed, powder-in-tube, multifilamentary composite wires. They differ principally in the type of powder that is packed into the silver billet. One, referred to as the oxide-powder-in-tube or "OPIT" process, involves the use of oxide powders. The Company is presently focused primarily on the OPIT process and has established a manufacturing line using this method. The manufacturing line has produced sufficient lengths of wire with sufficient performance to enable the Company to use the wire in commercial current lead products as well as in prototype electromagnetic coils and multistrand conductors and to permit other companies to demonstrate prototype HTS transformers, power cables and motors using the Company's HTS wires or coils.

In the alternative technique for making multifilamentary wires, referred to as the metallic precursor or "MP" process, metallic (rather than oxide) powders are packed into the silver billet. While the Company is not manufacturing HTS wire by this methodology at the present time, it continues to use the technology in certain of its wire development programs.

Precise control of initial composition, heat-treatment temperatures and their interplay with the deformation are required to obtain the best superconducting performance of the wire material. The Company has protected many aspects of its processes with patents. However, the Company expects to be required to obtain patent licenses from third parties in order to utilize certain aspects of these processes. While the Company is optimistic that it will be able to obtain such licenses, there can be no assurance of this, and even if such licenses can be obtained, the license fees may be substantial. See "Business -- Patents, Trade Secrets and Licenses."

Within the past few years, very high levels of current carrying performance have been reported in small laboratory samples of HTS coated conductors, which comprise a thick film of HTS material deposited on a flexible substrate, typically with an intermediate buffer layer. One variation of this process is called IBAD, or ion beam assisted deposition. In this process, thick films of HTS material are deposited on an aligned buffer layer (the IBAD layer) which is placed on a flexible substrate. This process improves the alignment of the HTS thick films and consequently their electrical performance. Initially developed by Fujikura Ltd., the Company believes that this process has been significantly improved by Los Alamos National Laboratory.

Another variant of coated conductor, called deformation texturing of substrates, has been developed by Toshiba Corporation and significantly improved by Oak Ridge National Laboratory (whose trademark for their version of this process is "RABiTS"). The Company has studied both processes and believes that these processes have the potential to be future processes for manufacturing HTS wire with high current carrying capacity and lower cost than composite deformation-processed wire. The Company is pursuing the development of these processes with an active internal program in collaboration with Electric Power Research Institute, Inc. ("EPRI"), Los Alamos National Laboratory, MIT and other organizations. However, only short coated conductor wire samples have been fabricated at high-performance levels, and there can be no assurance that the Company will succeed in developing this technology for commercial use. The Company has applied for patent protection on many aspects of its preferred coated conductor process. However, the Company may be required to obtain patent licenses from third parties in order to utilize the process. While the Company is optimistic that it will be able to obtain such licenses, there can be no assurance of this, and even if such licenses can be obtained, the license fees may be substantial. See "Business -- Patents, Trade Secrets and Licenses."

COMPETITION

The Company does not know of any companies currently selling LT-SMES products that compete with the SMES products offered by the Company. However, at least one company, IGC, is developing SMES systems for power quality applications, and the Company believes there is a government-sponsored program in Japan to develop SMES systems for power quality applications. The Company's SMES products also compete against dynamic voltage restorers produced by companies such as Westinghouse, flywheels under development by various companies around the world, and battery-based, uninterruptible power supply systems, which are widely manufactured and used around the world.

There are a number of companies in the United States, Europe and Japan engaged in attempts to bring to market high performance, technologically advanced, cost effective HTS products. However, to the Company's knowledge, no significant commercial amounts of HTS wire or other HTS products have been produced or sold to date. For HTS applications, the Company's principal competitors presently include several Japanese companies, such as Sumitomo Electric Industries, Ltd. ("SEI"), Hitachi, Ltd., and Furukawa Electric Co., Ltd.; several European companies, such as Siemens A.G. in Germany and B.I.C.C. and Oxford Instruments in England; and several companies in the U.S., such as IGC and 3M. Each of these companies is directing significant efforts to develop flexible, long-length HTS wires. SEI, Hitachi, Oxford and IGC are also developing HTS magnets and systems.

Many of the Company's competitors have substantially greater financial resources, research and development, manufacturing and marketing capabilities than the Company. In addition, as the power quality and HTS markets develop, other large industrial companies may enter these fields and compete with the Company.

STRATEGIC RELATIONSHIPS, RESEARCH ARRANGEMENTS AND GOVERNMENT CONTRACTS

The Company is party to a number of strategic relationships, research arrangements and government contracts. Its most significant strategic corporate agreements are with Pirelli, EDF and ABB.

The Pirelli alliance, originally established in February 1990, is designed to combine Pirelli's cable technology, manufacturing and marketing expertise with the Company's proprietary wire-manufacturing technologies for the purpose of developing and producing HTS wires for cables used to transmit both electric power and control signals. Under the Pirelli alliance, the Company has recorded as revenue \$13.3 million from 1990 to March 31, 1998 and Pirelli has agreed to pay the Company an aggregate of \$2.7 million over the next two years as "development fees;" however, this agreement may be terminated upon 90 days notice in certain circumstances. As of April 30, 1998, Pirelli owned less than 1% of the Company's Common Stock.

The EDF relationship, established in April 1997, involves the exchange of information relating to developments in HTS technology and related fields and trends in the electricity industry, and the review of technical, industrial and commercial topics by the parties through an advisory board comprised of representatives from both the Company and EDF. The EDF relationship also includes a development program, in conjunction with ABB, on HTS wire for transformers. Under the EDF alliance, the Company received \$10.0 million in 1997 from EDF as an equity contribution in exchange for 1.0 million shares of the Company's Common Stock, which, together with the 100,000 shares EDF purchased in the April 1998 public offering, represented, as of April 30, 1998, approximately 7.2% of the Company's outstanding Common Stock. EDF has agreed to pay the Company an aggregate of \$5.0 million (of which \$1.8 million has been recorded as revenue as of March 31, 1998) over the next four years as "development fees;" however, this agreement may be terminated upon 90 days notice by either party.

The ABB relationship is designed to combine ABB's transformer technology, manufacturing and marketing expertise with the Company's proprietary wire-forming technologies for the purpose of developing and producing HTS wires and cables for transformers. ABB has agreed to pay the Company an aggregate of \$5.0 million (of which \$2.3 million has been recorded as revenue as of March 31, 1998) over the next four years as "development fees;" however, this agreement may be terminated upon 90 days notice by either party.

The Company has also established a number of collaborative research relationships with various organizations such as Industrial Research, Ltd., four U.S. Department of Energy laboratories, University of Wisconsin Applied Superconductivity Center, MIT and EPRI. Finally, the Company is party to a number of government contracts, with entities such as Wright-Patterson Air Force Base, the Naval Research Laboratory and the U.S. Department of Energy through its Superconductivity Partnership Initiative, relating to the development and supply of prototype products.

The Company believes strategic relationships, research arrangements and government contracts provide it with several important benefits. First, they assist the Company in meeting and exceeding the technical benchmarks. Second, they provide the Company with development and marketing rights to important technologies. Third, various parties to these arrangements provide the Company with critical funding as the Company's research and development efforts progress toward commercialization. Since April 1, 1993, the Company has received more than \$33 million of funding under research and development contracts. Finally, and perhaps most importantly, several of these relationships, particularly those with Pirelli and ABB, provide a potential direct market for the Company's HTS wires.

PATENTS, TRADE SECRETS AND LICENSES

The HTS Patent Background

Since the discovery of high temperature superconductors in 1986, the HTS industry has been characterized by rapid technical advances, which in turn have resulted in a large number of patents relating to superconductivity being applied for and granted worldwide. The claims in different granted patents often overlap, and similar patents in different countries may have different claims or be owned by different entities. As a result, the patent situation in the field of HTS technology and products is unusually complex.

Most major potential HTS manufacturers, including the Company and its competitors, own or may obtain patents which may interfere with each other. A number of United States and foreign patents and patent applications, held by third parties, relate to the Company's current products or to products under development,

or to the technology now or later to be utilized by the Company in the development or production of certain present and future products. Additional patents relating to the Company's technology, processes or applications may be issued to third parties in the future. The Company will need to acquire licenses to, or to successfully contest the scope or validity of, patents owned by third parties.

The Company believes that companies holding patent portfolios which may complement portfolios held by others in the industry are more likely to be willing to enter into cross-licensing arrangements with such other patent owners than with companies that do not have such patent positions. The Company believes that certain patents it has licensed from others covering basic materials processing methods, and composites of HTS ceramics and noble metals, will improve the strength of its patent portfolio and therefore its position in these future licensing negotiations. See "Business -- Patents, Trade Secrets and Licenses -- Patents and Wire Architecture."

However, many patents and patent applications are held by companies with which the Company may not compete, and such companies may not be interested in cross-licensing. Moreover, it is possible that the Company could be required to obtain licenses under a number of different patents and from a number of different patent holders in connection with various aspects of its present and planned business operations. Although the Company is optimistic that it will be able to obtain any necessary licenses on commercially reasonable terms, there can be no assurance that all necessary licenses will be available on commercially reasonable terms, or at all.

The cost of any such licenses is not known, but the Company is likely to be required to obtain multiple licenses and, to the extent that licenses can be obtained the cost is expected, in aggregate, to be substantial. The failure to obtain all necessary licenses upon reasonable terms could significantly reduce the scope of the Company's business, limit its profit margins, and otherwise have a material adverse effect on the Company's operations.

The likelihood of successfully contesting the scope or validity of any such patents is also uncertain; and, in any event, the Company could incur substantial costs in challenging the patents of other companies. Moreover, the Company could incur substantial litigation costs in defending the scope and validity of its own patents.

To understand the Company's approach to patents in light of these circumstances, it is useful to analyze HTS patents in relation to the issues the Company needs to consider in the process of designing and manufacturing HTS products; the choice of material used to make an HTS product; the choice of the processing method to be applied to that material; and the choice of components or subsystems to be fabricated and the fabrication methods used.

Patents and the Choice of HTS Materials

Presently, the materials from which HTS products are made are copper oxides, or "cuprates." The Company does not anticipate that anyone will receive a broad basic patent on cuprates, but there can be no assurance in this regard. There are a number of HTS materials within the cuprate family. A number of patents have been issued with regard to certain specific HTS materials within the cuprate family and the Company believes that a number of other patent applications for various HTS materials within the cuprate family, some with broad claims, are pending.

At any given time, the Company will have a preference for utilizing one or a few specific HTS materials in the production of its products for commercial application, and any HTS material used by the Company is likely to be covered by one or more patents issued to other parties. Because of the number and scope of patents pending or issued in various parts of the world, the Company may be required to obtain multiple licenses to use any particular material.

The Company jointly owns or has obtained licenses with respect to patents covering certain HTS materials through its collaborations with MIT and Superlink. However, the Company expects that additional materials licenses may be required. There is no assurance that the Company will be able to obtain on commercially reasonable terms all the licenses that may be needed for the Company to use preferred HTS materials, and even if the Company is able to obtain such licenses, the license fees may be substantial.

Patents and the Processing of HTS Materials

The Company is concentrating on two main methods for processing the materials it currently intends to use: the OPIT method, and the "coated conductor" technology. See "Business -- HTS Wire Production Processes." The Company's strategy is to obtain a proprietary position in each of these processes through a combination of patents, licensing and proprietary know-how. If alternative processes become more promising in the future, the Company will also seek to develop a proprietary position in these alternative processes.

The Company has filed a number of patent applications which are applicable to one or more of the MP method, the OPIT method, and coated conductor technology. Some of these applications have been issued as patents in the U.S. and abroad while others are pending. The Company also has acquired options to exclusively license additional intellectual property in the coated conductor area through its collaborations with EPRI and MIT.

Effective March 31, 1998, the Company signed an agreement with Lucent Technologies, Inc. ("Lucent"), granting the Company a royalty-bearing, non-exclusive worldwide license for superconductor wire under Lucent's portfolio of high temperature superconductor patents and patent applications. The license runs from March 31, 1998 until the expiration of the last-to-expire patent in the portfolio.

Additional U.S. and foreign patents have been issued to third parties with claims directed to HTS processing methods which, if valid, may cover one or more of the MP, the OPIT or the coated conductor technologies used by the Company. Several U.S. and foreign patents have been issued with claims which, if valid, may cover various aspects of the coated conductor process. In addition, the Company has learned that a number of additional U.S. and foreign patent applications have been filed which contain similar claims. To the extent any of these issued patents are valid and cover any processing methods used by the Company, or if any of the pending applications result in a valid patent with claims covering the Company's methods, the Company would be required to obtain licenses under any applicable patents. There is no assurance that the Company will be able to obtain such licenses, and even if such licenses can be obtained, the license fees may be substantial.

Patents and Wire Architecture

The Company has an exclusive license from MIT under an issued U.S. patent that covers composites (including multifilamentary wires) of HTS ceramics and noble metals such as silver.

A number of other companies have also filed, and in some instances, have been issued patents on various aspects of wire architecture. To the extent any of these issued patents are valid and cover the wire architectures used by the Company, or to the extent any of the pending applications result in a valid patent with claims covering the Company's methods, the Company would be required to obtain licenses under any applicable patents. There is no assurance that the Company will be able to obtain such licenses, and even if such licenses can be obtained, the license fees may be substantial.

HTS Component and Subsystem Fabrication, HTS Application, and Power Quality and SMES Patents

The Company has been issued several patents and filed several additional patent applications regarding the design and fabrication of electromagnetic coils and electromagnets, the integration of these products with an appropriate coolant or cryocooler and the application of these products to certain specific end uses, as well as several patent applications on cryocooled power electronics. The Company holds several issued patents and pending applications on power quality systems as a result of the acquisition of SI.

Since the HTS and cryocooled power systems fields are relatively new, significant applications can and are being patented by others. A number of other companies have also filed, and in some instances have been issued, patents on various applications of HTS wire, cryocooled power electronics and component and subsystem fabrication methods. To the extent any existing or future third party patents are pertinent to these aspects of the Company's operations, the Company would be required to obtain licenses under the applicable patents. There is no assurance that the Company will be able to obtain such licenses, and even if such licenses can be obtained, the license fees may be substantial.

Trade Secrets

Some of the technology used in, and that may be important to, the Company's operations and products is not covered by any patent or patent application owned by or licensed to the Company. However, the Company takes steps to maintain the confidentiality of this technology by requiring all employees and all consultants to sign confidentiality agreements and limiting access to confidential information. However, no assurance can be given that these measures will prevent the unauthorized disclosure or use of such information. Further, there is no assurance that others, including the Company's competitors, will not independently develop the same or comparable technology.

EMPLOYEES

As of March 31, 1998, the Company employed a total of 213 persons, 24 of whom have Ph.D.'s in material science, physics or related fields. No Company employees are represented by a labor union. The Company believes that its employee relations are good.

RESEARCH AND DEVELOPMENT

The Company's research and development expenses in fiscal 1998 were approximately \$8,641,000 compared to \$8,477,000 in fiscal 1997. Adjusted research and development expenses, which consist of company-funded research and development expenses plus research and development expenses related to externally-funded development contracts included in costs of revenue and research and development expenses offset by cost-sharing funding under government contracts, were \$17,048,000 in fiscal 1998 compared to \$14,678,000 in fiscal 1997.

ITEM 2. PROPERTIES.

The Company's operations are located in approximately 102,000 square feet of space in Westborough, Massachusetts, approximately 60,000 square feet of space in Middleton, Wisconsin and approximately 3,700 square feet of space in Woburn, Massachusetts. The Company occupies the Westborough facility under a lease which expires on May 31, 2003 and has an option to extend the lease for an additional five-year term. The Company occupies the Middleton facilities under two leases which expire on December 31, 2003. The Company occupies the Woburn facility under a lease which expires on January 30, 1999.

ITEM 3. LEGAL PROCEEDINGS.

Neither the Company nor any subsidiary is involved in any material legal proceedings other than routine litigation incidental to its business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS.

No matters were submitted to a vote of the Company's security-holders during the fourth quarter of the fiscal year ended March 31, 1998.

Executive Officers of the Company

The following table sets forth the names, ages and offices of all executive officers of the Company:

NAME - - - - -	AGE ---	OFFICE -----
Gregory J. Yurek.....	51	President, Chief Executive Officer and Chairman of the Board of Directors
Stanley D. Piekos.....	50	Vice President, Corporate Development, Chief Financial Officer, Treasurer and Secretary
Alexis P. Malozemoff.....	54	Senior Vice President and Chief Technical Officer
Roland E. Lefebvre.....	47	Executive Vice President and Chief Operating Officer
Ross S. Gibson.....	39	Vice President, Human Resources
John B. Howe.....	41	Vice President, Electric Industry Affairs

Dr. Yurek co-founded the Company and has been a director since July 1987, President since March 1989, Chief Executive Officer since December 1989 and Chairman of the Board since October 1991. Dr. Yurek also served as Vice President and Chief Technical Officer from August 1988 until March 1989 and as Chief Operating Officer from March 1989 until December 1989. Prior to joining the Company, Dr. Yurek was a Professor of Materials Science and Engineering at MIT for 13 years.

Mr. Piekos joined the Company in February 1998 as Chief Financial Officer, Vice President, Corporate Development, Treasurer and Secretary. From June 1994 until February 1998, Mr. Piekos served as Vice President and Chief Financial Officer of Brooks Automation, Inc., a supplier of robotics and controls to the semiconductor production equipment industry. For the nine years prior to June 1994, Mr. Piekos was employed by Helix Technology Corporation, a manufacturer of cryogenic equipment, most recently as Vice President and Chief Financial Officer.

Dr. Malozemoff joined the Company as Vice President, Research and Development in January 1991 and was elected Chief Technical Officer in January 1993 and Senior Vice President in May 1998. Prior to joining the Company, Dr. Malozemoff spent 19 years at IBM in a variety of research and management positions, most recently as IBM Research Coordinator for High Temperature Superconductivity.

Mr. Lefebvre joined the Company in May 1996 as Vice President, Sales and Marketing and was elected Executive Vice President and Chief Operating Officer in May 1998. Prior to joining the Company, Mr. Lefebvre spent 23 years at General Electric Company in a variety of positions, most recently as General Manager, National Account Sales.

Mr. Gibson joined the Company as Vice President, Human Resources in July 1997. From April 1992 until June 1997, Mr. Gibson served in a variety of positions at Cambridge Neuroscience, Inc., most recently as Vice President, Human Resources and Administration and Chief Administrative Officer.

Mr. Howe joined the Company in November 1997 as Director, Electric Industry Affairs and was elected Vice President, Electric Industry Affairs in May 1998. From November 1995 until September 1997, Mr. Howe was Chairman of the Massachusetts Department of Public Utilities. For the five and one-half years prior to November 1995, Mr. Howe served in various positions, most recently as Vice President, Regulatory and Government Affairs, for U.S. Generating Company.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock has been quoted on the Nasdaq National Market under the symbol "AMSC" since 1991. The following table sets forth the high and low closing price per share of the Company's Common Stock as reported on the Nasdaq National Market for the two most recent fiscal years:

	COMMON STOCK PRICE	
	HIGH	LOW
FISCAL YEAR ENDED MARCH 31, 1997:		
First quarter.....	14 3/4	12 3/8
Second quarter.....	15 3/4	11 5/8
Third quarter.....	15 1/8	10 3/8
Fourth quarter.....	11 3/4	7 7/8
FISCAL YEAR ENDED MARCH 31, 1998:		
First quarter.....	12 1/4	8 1/4
Second quarter.....	13 3/8	8 5/8
Third quarter.....	14 1/8	8 3/8
Fourth quarter.....	15	8 1/2

The number of shareholders of record on June 8, 1998 was 430.

ITEM 6. SELECTED FINANCIAL DATA.

The selected consolidated financial data presented below reflect the combined results of operations and financial position of the Company and SI restated for all periods presented pursuant to the pooling of interests method of accounting. The financial data for the fiscal year ended March 31, 1998 have been derived from the Company's consolidated financial statements that have been audited by Coopers & Lybrand L.L.P, independent accountants. The financial data for each of the four fiscal years in the period ended March 31, 1997 have been derived from the combination of the Company's consolidated financial statements that have been audited by Coopers & Lybrand L.L.P., independent accountants, and the SI financial statements that have been audited by other independent accountants. In addition, the combination of the separate audited financial statements of the Company and SI for the three fiscal years in the period ended March 31, 1997 has been audited by Coopers & Lybrand L.L.P. This financial data should be read in conjunction with the Consolidated Financial Statements and the Notes thereto and the other financial information appearing elsewhere in this Annual Report on Form 10-K.

	YEAR ENDED MARCH 31,				
	1998	1997	1996	1995	1994

	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
Revenues.....	15,129	10,551	10,764	8,593	4,942
Net loss.....	(12,378)	(13,377)	(9,698)	(7,036)	(7,717)
Net loss per share.....	(1.06)	(1.27)	(0.94)	(0.69)	(0.86)
Total assets.....	19,551	26,581	35,856	44,887	50,037
Working capital.....	5,059	318	5,101	2,341	7,666
Cash, cash equivalents and long-term marketable securities.....	8,009	16,031	26,519	33,653	41,774
Stockholders' equity.....	12,859	16,501	29,780	38,416	45,349

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information required by this Item is attached as Appendix A hereto and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

All financial statements required to be filed hereunder are filed as Appendix B hereto, are listed under Item 14(a), and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The response to this item is contained in part under the caption "Executive Officers of the Company" in Part I of this Annual Report on Form 10-K, and in part in the Company's Proxy Statement for the Annual Meeting of Stockholders for the fiscal year ended March 31, 1998 (the "1998 Proxy Statement") in the sections "Election of Directors -- Nominees," and "Other Matters -- Section 16 Beneficial Ownership Reporting Compliance," which sections are incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The response to this item is contained in the 1998 Proxy Statement in the sections "Election of Directors -- Directors' Compensation," "-- Executive Compensation," and "-- Employment Agreements with Senior Executives," which sections are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The response to this item is contained in the 1998 Proxy Statement in the section "Beneficial Ownership of Common Stock," which section is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The response to this item is contained in the 1998 Proxy Statement in the section "Election of Directors -- Certain Business Relationships," which section is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) The following documents are filed as Appendix B hereto and are included as part of this Annual Report on Form 10-K.

Financial Statements:

Report of Independent Accountants
 Consolidated Balance Sheets
 Consolidated Statements of Operations
 Consolidated Statements of Cash Flows
 Consolidated Statements of Changes in Stockholders' Equity
 Notes to Consolidated Financial Statements

The Company is not filing any financial statement schedules as part of this Annual Report on Form 10-K because they are not applicable or the required information is included in the financial statements or notes thereto.

(b) Reports on Form 8-K.

The Company filed a report on Form 8-K on March 24, 1998 to file restated Financial Data Schedules for all periods affected by the restatement of the Company's financial statements following the adoption of Financial Accounting Standard ("FAS") No. 128 relating to earnings per share and the acquisition of Superconductivity, Inc., accounted for as a pooling of interests. No other reports on Form 8-K were filed during the last quarter of the Company's fiscal year ended March 31, 1998.

(c) The list of Exhibits filed as a part of this Annual Report on Form 10-K is set forth on the Exhibit Index immediately preceding such Exhibits.

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. On April 8, 1997, the Company acquired Superconductivity, Inc. ("SI"), which is now being operated as the Power Quality Solutions business unit of the Company, in a transaction accounted for under the pooling of interests method of accounting. Accordingly, the Company's consolidated financial statements reflect the combined financial position, operating results and cash flows of the Company and SI as if they had been combined for all periods presented. For purposes of the discussion of the results of operations of the Company for the fiscal years ended March 31, 1997 and 1996, the term "Former ASC" is used to refer to the Company prior to the SI acquisition. On July 31, 1997, the Company acquired Applied Engineering Technologies, Ltd. ("AET") in a transaction accounted for under the pooling of interests method of accounting. Due to the immaterial effect on the Company's consolidated financial statements, prior periods have not been adjusted to reflect the effect of this transaction on the financial position, operating results and cash flows of the Company.

RESULTS OF OPERATIONS

FISCAL YEARS ENDED MARCH 31, 1998 AND MARCH 31, 1997

Revenues

Total revenues increased 43% to \$15,129,000 in fiscal 1998 from \$10,551,000 in fiscal 1997. This increase was due primarily to higher contract revenue associated with the Company's joint development program with Electricite de France ("EDF") and ABB Power Transmission and Distribution Company ("ABB") to develop high temperature superconductor ("HTS") wire for power transformers. The agreements with ABB and EDF were signed in fiscal 1998, and contributed \$3,075,000 in contract revenue in fiscal 1998, compared to \$700,000 in contract revenue and \$300,000 in product sale revenue from ABB in fiscal 1997.

In addition, contract revenue was also positively affected by a \$700,000 contract with the Electric Power Research Institute (EPRI) and by an increase in work performed on seven Phase II Small Business Innovation Research (SBIR) grants, five of which were awarded during fiscal 1998, from the Department of Energy, Department of Defense, and National Science Foundation. At SI, fiscal 1998 product sales increased \$1,518,000 compared to fiscal 1997, which was largely offset by a decrease in contract revenue of \$1,426,000. Revenue was also positively affected by the recognition of \$565,000 in product sales by AET, which was acquired on July 31, 1997, four months into the Company's fiscal year. Fiscal 1997 contract revenue included \$825,000 relating to a research and development agreement with Inco Alloys International, which was discontinued on December 31, 1996.

In addition to reported revenues, the Company also received funding of \$1,771,000 in fiscal 1998 under government cost-sharing agreements as compared to \$1,706,000 in fiscal 1997. 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 1998 were \$27,884,000 compared to \$23,345,000 in fiscal 1997. Costs of revenue, which include costs of research and development contracts and costs of product sales and prototype development contracts, increased to \$14,333,000 in fiscal 1998 compared to \$10,577,000 in fiscal 1997. 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. Included in

cost of revenue is a write-down provision of \$445,000 in fiscal 1997. This provision was required to adjust the carrying values of certain items of inventory to their fair values.

Adjusted research and development ("R&D") expenses, which include amounts classified as costs of revenue and amounts offset by cost sharing funding, increased to \$17,048,000 in fiscal 1998 from \$14,678,000 in fiscal 1997. This increase was due to the continued scale-up of the Company's internal research and development activities including the hiring of additional personnel, the purchases of materials and equipment and the payment of patent licensing fees. A portion of the 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 1998 and fiscal 1997 were \$7,494,000 and \$5,322,000, respectively. Additionally, R&D expenses that were offset by cost sharing funding were \$913,000 and \$879,000 in fiscal 1998 and 1997, respectively. Net R&D expenses (exclusive of amounts classified as costs of revenue and amounts offset by cost sharing funding) increased to \$8,641,000 in fiscal 1998 from \$8,477,000 the prior year.

Selling, general and administrative ("SG&A") expenses were \$4,910,000 in fiscal 1998 as compared to \$4,291,000 in fiscal 1997. These increases were primarily due to additional recruiting, legal, consulting, and marketing expenses incurred to support the overall increase in the Company's revenues and research and development activities, as well as increases in executive bonuses and other compensation. The SG&A amounts offset by cost share funding were \$858,000 and \$828,000 in fiscal years 1998 and 1997, respectively. In addition to these expenses, 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). SG&A expenditures included as costs of revenue during fiscal 1998 and fiscal 1997 were \$3,394,000 and \$2,186,000, respectively.

Non-operating expenses

Interest income decreased to \$782,000 in fiscal 1998, as compared to \$1,177,000 in fiscal 1997. 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, pay liabilities and transaction costs related to the two mergers, and to purchase capital equipment. Interest expense decreased from \$356,000 in fiscal 1997 to \$239,000 in fiscal 1998 primarily due to the payoff of notes payable and the reduction in long term debt. 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 1998, the Company incurred an additional \$155,000 in transaction fees resulting from professional fees relating to both the SI (\$76,000) and the AET (\$79,000) acquisitions. 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 the next few years, as it continues to devote significant financial resources to its research and development activities and commercialization efforts.

The Company expects to be 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.

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 1996; however, revenue under this firm fixed-price contract was not 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 sale of a commercial 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).

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 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.

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.

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.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 1998, the Company had cash, cash equivalents and long-term marketable securities totaling \$8,009,000 compared to cash, cash equivalents and long-term marketable securities totaling \$16,031,000 at March 31, 1997. In fiscal 1998, \$14,930,000 was used to fund the Company's operations. Approximately \$4,400,000 was used pay the investment banking and legal fees associated with the Company's April 8, 1997 acquisition of SI and the retirement of various SI liabilities. Additional uses of cash were for the purchase of capital equipment, primarily for research and development and manufacturing. This decrease in cash was partially offset by a \$10,000,000 equity investment by a subsidiary of Electricite de France in April, 1997. On April 22, 1998 the Company completed a secondary public offering of 3,504,121 shares of common stock and received net proceeds (before deducting offering expenses) of \$46,114,000.

The Company has potential funding commitments of approximately \$14,589,000 to be received after March 31, 1998 from strategic partners and government agencies (all of which is due within the next three years). However, a total of \$5,914,000 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.

The Company believes that several years of further development will be necessary before HTS wires and related products are available in significant quantities for commercial power applications. The Company believes, based on its current business plan, that its current cash and marketable securities should be sufficient to fund the Company's operations for at least the next three years. However, the Company may need additional funds sooner than anticipated if the Company's performance deviates significantly from its current business plan or 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, or available under terms acceptable to the Company.

The Company has analyzed the computer systems and related applications of the Company and its subsidiaries to assess the expected impact of the Year 2000 date recognition issue on these systems and applications. Certain systems will need to be updated in order to be prepared for the Year 2000 issue, and the Company anticipates this process will be completed by the end of fiscal 1999. The Company does not anticipate that the costs associated with this updating or the Year 2000 issue will have a material adverse effect on the financial condition or results of operations of the Company.

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.

Development Stage of the Company; Technological Challenges. To date, the Company has been principally engaged in research and development activities. Some of the Company's products are in the early stages of commercialization and testing, while others are still under development. The Company believes that several years of further development will be necessary before its HTS wires and wire products will be available for significant commercial end-use applications, and that significant additional development work is necessary to improve the commercial feasibility and acceptance of its LT-SMES products. There are a number of technological challenges that the Company must successfully address to complete any of its commercialization and development efforts. There can be no assurance that the Company will be able to meet such technological challenges and commercialize any such products or that these products, if timely developed and commercialized, will be technically or commercially successful.

Uncertainty Regarding Development of Market. To date, there has been no widespread commercial use of HTS products. Although LTS products are currently used in a number of commercial applications, commercial acceptance of LTS products has been significantly limited by the cooling requirements of LTS materials and other factors. There can be no assurance that the technological hurdles currently limiting commercial use of HTS and LTS products will ever be overcome, or that the market demands currently anticipated by the Company for its HTS and LTS products will develop.

History of Losses and Uncertainty of Financial Results. The Company has incurred net losses in each year since its inception. The Company expects to continue to incur operating losses for at least the next few years and there can be no assurance that the Company will ever achieve a profitable level of operations.

Uncertainties Regarding Proprietary Rights. The Company expects that some or all of the HTS materials used in the manufacture of its products, and certain aspects of the technologies 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. Based on commercial practices in other industries, the Company is optimistic that such licenses will be available. However, there can be no assurance that such licenses will be available, or that, if available, they will be available on commercially reasonable terms. Any litigation by the Company to contest the validity or scope of such patents is likely to involve significant expense and may not be successful.

Competition and Technological Change. The superconductivity industry is characterized by rapidly changing and advancing technology. For HTS applications, the Company's principal competitors presently include several major Japanese companies, such as Sumitomo Electric Industries, Ltd., Hitachi, Ltd. and Furukawa Electric Co. Ltd.; several European companies, such as Siemens A.G. in Germany and B.I.C.C. and Oxford Instruments in England; and several companies in the U.S. such as Intermagnetics General Corporation and 3M. In the market for industrial power quality systems and services, the Company competes with vendors of a number of non-superconductivity products as well as developers of SMES systems. The future success of the Company will depend in large part upon its ability to keep pace with advancing HTS and LTS technology and developing industry standards. 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. Many of the Company's competitors have substantially greater financial resources, research and development, manufacturing and marketing capabilities than the Company. In addition, as the HTS and

power quality markets develop, other large industrial companies may enter these fields and compete with the Company.

Future Capital Needs. The Company believes, based upon its current business plan, that its current cash and marketable securities should be sufficient to fund the Company's operations as planned for at least the next three years. However, the Company may need additional funds sooner than anticipated if the Company's performance deviates significantly from its current business 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, or available on terms acceptable to the Company.

Lack of Manufacturing and Marketing Experience. 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 commercial quantities at acceptable 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 efforts to manufacture commercial quantities of the Company's products. In addition, the Company will be required to develop a marketing and sales force that will effectively demonstrate the advantages of its products over more traditional products, as well as competitive superconductive products. The Company's marketing and selling experience to date is limited. There can be no assurance that the Company will be able to make the transition to commercial production successfully or 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 third parties with whom it enters into such arrangements will be successful in marketing the Company's products.

Dependence on Strategic Relationships. The Company's business strategy includes entering into strategic relationships with corporate partners. Although the Company has strategic relationships with Pirelli, EDF and ABB, there can be no assurance that the Company will be able to maintain these relationships or that these relationships will be technologically or commercially successful. In addition, there can be no assurance that the Company will be able to negotiate additional strategic relationships or that any such relationships, if established, will be technologically or commercially successful.

Dependence on Key Personnel. The Company's success will depend in large part upon its ability to attract and retain highly qualified research and development, management, manufacturing, marketing and sales personnel. Due to the specialized nature of the Company's business, it may be difficult to locate and hire qualified personnel. The Company is particularly dependent upon the services of Dr. Gregory J. Yurek, a founder and its Chairman of the Board, President and Chief Executive Officer, and Dr. Alexis P. Malozemoff, its Chief Technical Officer. The loss of the services of either of these individuals, or the failure of the Company to attract and retain other key personnel, could have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Acquisitions Strategy. The Company's strategy includes acquiring companies to enhance its market position, add value to its product lines and strengthen its technology base. The Company made two acquisitions in 1997. There can be no assurance that the Company will make any additional acquisitions in the future. Any acquisitions present a number of new challenges for the Company's management, including the entry into new lines of business, the integration of new products, technologies and personnel into the Company's existing business organization, the management and operation of geographically dispersed operations, and the adaptation of the Company's information systems and management structure to a larger organization. There can be no assurance that the Company will be successful in addressing these challenges, or that acquisitions will produce the benefits anticipated by the Company.

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, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based upon our audits. We did not audit the financial statements of Superconductivity, Inc., a wholly-owned subsidiary, as of December 31, 1996 and for the years ended December 31, 1996 and 1995, which statements reflect total assets constituting 11% of consolidated total assets as of March 31, 1997 and net revenues constituting 32% and 34% of consolidated net revenues for the years ended March 31, 1997 and 1996, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to data included in the consolidated financial statements for such entities, is based solely on the reports of other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform our audits 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Superconductor Corporation as of March 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 1998 in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

Boston, Massachusetts
May 8, 1998

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

Madison, Wisconsin
February 7, 1997

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Superconductivity, Inc.

We have audited the 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 amount 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
Ernst & Young LLP

Madison, Wisconsin
February 29, 1996

AMERICAN SUPERCONDUCTOR CORPORATION
CONSOLIDATED BALANCE SHEETS

	MARCH 31,	
	1998	1997
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 1,842,142	\$ 584,804
Accounts receivable.....	2,991,635	3,070,573
Notes receivable.....	--	383,607
Inventory.....	3,229,973	2,940,656
Prepaid expenses and other current assets.....	545,428	345,344
	-----	-----
Total current assets.....	8,609,178	7,324,984
Property and equipment:		
Equipment.....	12,502,756	10,137,721
Furniture and fixtures.....	946,630	733,794
Leasehold improvements.....	1,980,090	1,732,215
	-----	-----
	15,429,476	12,603,730
Less: accumulated depreciation.....	(11,006,576)	(8,835,754)
	-----	-----
Property and equipment, net.....	4,422,900	3,767,976
Long-term marketable securities.....	6,167,030	15,446,106
Net investment in sales-type lease.....	345,940	--
Other assets.....	6,167	42,028
	-----	-----
Total assets.....	\$ 19,551,215	\$26,581,094
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Note payable-line of credit.....	--	\$ 530,000
Accounts payable and accrued expenses.....	\$ 3,333,462	4,283,612
Deferred revenue.....	187,285	1,519,678
Current portion of long-term debt.....	29,609	673,428
	-----	-----
Total current liabilities.....	3,550,356	7,006,718
Long-term debt (less current portion).....	3,141,793	3,073,663
Commitments (Note 10)		
Stockholders' equity:		
Common stock, \$.01 par value Authorized		
shares -- 20,000,000; issued and outstanding		
shares -- 11,756,793 in 1998 and 10,505,118 in 1997....	117,568	105,051
Additional paid-in capital.....	87,961,911	76,388,679
Deferred compensation.....	--	(25,480)
Deferred contract costs -- warrants.....	(1,328,446)	(557,265)
Unrealized gain (loss) on investments.....	32,706	(143,661)
Cumulative translation adjustment.....	(32,798)	(9,892)
Accumulated deficit.....	(73,891,875)	(59,256,719)
	-----	-----
Total stockholders' equity.....	12,859,066	16,500,713
	-----	-----
Total liabilities and stockholders' equity.....	\$ 19,551,215	\$26,581,094
	=====	=====

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

AMERICAN SUPERCONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED MARCH 31,		
	1998	1997	1996
Revenues:			
Contract revenue.....	\$ 9,273,901	\$ 6,867,444	\$ 7,526,306
Product sales and prototype development contracts.....	5,013,008	2,936,567	2,366,351
Rental/other revenue.....	841,903	746,546	871,769
Total revenues.....	15,128,812	10,550,557	10,764,426
Costs and expenses:			
Costs of revenue.....	14,332,712	10,577,376	11,553,016
Research and development.....	8,641,102	8,477,365	5,704,494
Selling, general and administrative.....	4,910,102	4,290,500	4,538,167
Total costs and expenses.....	27,883,916	23,345,241	21,795,677
Merger related fees.....	(154,744)	(710,105)	
Interest income.....	781,599	1,177,386	1,585,168
Interest expense.....	(238,625)	(356,366)	(214,671)
Fees -- terminated transaction.....	--	(669,627)	--
Other income (expense), net.....	(11,314)	(23,777)	(37,529)
Net loss.....	\$ (12,378,188)	\$ (13,377,173)	\$ (9,698,283)
Net loss per common share			
Basic.....	\$ (1.06)	\$ (1.27)	\$ (0.94)
Diluted.....	\$ (1.06)	\$ (1.27)	\$ (0.94)
Weighted average number of common shares outstanding			
Basic.....	11,658,034	10,497,643	10,351,993
Diluted.....	11,658,034	10,497,643	10,351,993

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

AMERICAN SUPERCONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	1998	1997	1996
	-----	-----	-----
Cash flows from operating activities:			
Net loss.....	\$(12,378,188)	\$(13,377,173)	\$(9,698,283)
Adjustments to reconcile net loss to net cash used by operations:			
Merger with AET.....	(90,569)		
Forgiveness of notes receivable.....	349,368	206,744	104,778
Depreciation and amortization.....	2,113,617	1,983,531	2,106,569
Write down of inventory and equipment.....	--	444,538	1,175,142
Loss (gain) on disposals of property and... equipment	24,569	(9,697)	--
Deferred compensation expense....	25,480	25,480	29,960
Deferred contract costs-warrant.....	260,679	79,613	--
Interest accrued on convertible debentures.....	--	230,746	100,383
Changes in operating asset and liability accounts:			
Accounts receivable.....	(462,031)	(1,343,043)	994,748
Inventory.....	159,289	(973,571)	(1,073,049)
Prepaid expenses and other current assets.....	(205,631)	(73,592)	(27,796)
Note payable-line of credit.....	(875,000)	--	--
Accounts payable and accrued expenses...	(1,877,010)	2,082,137	(639,139)
Deferred revenue.....	(1,974,510)	625,978	678,700
Net cash used by operating activities.....	(14,929,937)	(10,098,309)	(6,247,987)
Cash flows from investing activities:			
Notes receivable.....	(18,951)	(82,815)	(40,973)
Repayment of notes receivable.....	53,190	100,000	--
Purchase of property and equipment.....	(2,889,245)	(1,451,142)	(1,342,922)
Purchase of long-term marketable securities.....	(3,000,000)	--	--
Sale of long-term marketable securities....	12,455,443	6,730,101	9,924,608
Decrease (increase) in other assets.....	35,861	(37,130)	28,676
Net investment in sales-type lease.....	(345,940)	--	--
Net cash provided by investing activities.....	6,290,358	5,259,014	8,569,389
Cash flows from financing activities:			
Payments on notes payable.....	(643,819)	(131,049)	(422,352)
Proceeds from notes payable (net).....	--	5,000	--
Payments on long-term debt.....	4,693	--	--
Proceeds from 10% convertible debentures...	--	1,200,000	--
Net proceeds from issuance of common stock.....	10,543,887	89,097	379,969
Net cash provided by financing activities.....	9,904,761	1,163,048	(42,383)
Net increase (decrease) in cash and cash equivalents.....	1,265,182	(3,676,247)	2,279,019
Cash and cash equivalents at beginning of year....	584,804	4,261,051	1,982,032
Effect of SI's excluded results.....	(7,844)	--	--
Cash and cash equivalents at end of year.....	\$ 1,842,142	\$ 584,804	\$ 4,261,051
	=====	=====	=====
Supplemental schedule of cash flow information:			
Cash paid for interest.....	\$ 135,906	\$ 125,620	\$ 114,288
Noncash issuance of common stock.....	\$ 165,954	--	\$ 150,000

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

AMERICAN SUPERCONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	DEFERRED COMPENSATION	DEFERRED CONTRACT COSTS	UNREALIZED GAIN/LOSS ON INVESTMENTS	CUMULATIVE TRANSLATION ADJUSTMENT
	NUMBER OF SHARES	PAR VALUE					
BALANCE AT MARCH 31, 1995.....	10,337,506	103,375	\$75,134,412	\$ (80,920)		\$ (573,081)	\$ 13,193
Exercise of warrants.....	65,840	658	499,342				
Exercise of stock options.....	19,660	197	29,772				
Purchase of fractional shares...	(10)						
Amortization of deferred compensation.....				29,960			
Unrealized gain on investments.....						\$ 11,111	
Translation adjustment.....							(8,591)
Net loss.....							
BALANCE AT MARCH 31, 1996.....	10,422,996	104,230	75,663,526	(50,960)		(61,970)	4,602
Exercise of stock options.....	82,122	821	88,275				
Amortization of deferred compensation.....				25,480			
Deferred contract costs-warrant.....			636,878		(636,878)		
Warrant expense.....					79,613		
Unrealized loss on investments.....						(81,691)	
Translation adjustment.....							(14,494)
Net loss.....							
BALANCE AT MARCH 31, 1997.....	10,505,118	105,051	76,388,679	(25,480)	(557,265)	(143,661)	(9,892)
Exercise of stock options.....	166,794	1,668	511,385				
Investment by EDF.....	1,000,000	10,000	9,929,994				
Merger with AET.....	68,306	683	9,317				
Stock compensation expense.....	9,075	91	90,751				
Amortization of deferred compensation.....				25,480			
Deferred contract costs-warrant.....			953,638		(953,638)		
Amortization of deferred contract costs.....			3,035		182,457		
Exercise of warrants.....	7,500	75	75,112				
Unrealized gain on investments.....						176,367	
Cumulative translation adjustment.....							(22,906)
Effect of SI's excluded results.....							
Net loss.....							
BALANCE AT MARCH 31, 1998.....	11,756,793	\$117,568	\$87,961,911	\$ --	\$ (1,328,446)	\$ 32,706	\$ (32,798)
	=====	=====	=====	=====	=====	=====	=====
		TOTAL					
	ACCUMULATED	STOCKHOLDERS'					
	DEFICIT	EQUITY					
	-----	-----					
BALANCE AT MARCH 31, 1995.....	\$(36,181,263)	\$38,415,716					
Exercise of warrants.....		500,000					
Exercise of stock options.....		29,969					
Purchase of fractional shares...							
Amortization of deferred compensation.....		29,960					
Unrealized gain on investments.....		\$ 11,111					
Translation adjustment.....		(8,591)					
Net loss.....	(9,698,283)	(9,698,283)					
BALANCE AT MARCH 31, 1996.....	(45,879,546)	29,779,882					
Exercise of stock options.....		89,096					
Amortization of deferred compensation.....		25,480					
Deferred contract costs-warrant.....		--					
Warrant expense.....		79,613					
Unrealized loss on investments.....		(81,691)					
Translation adjustment.....		(14,494)					
Net loss.....	(13,377,173)	(13,377,173)					
BALANCE AT MARCH 31, 1997.....	(59,256,719)	\$16,500,713					
Exercise of stock options.....		513,053					
Investment by EDF.....		9,939,994					
Merger with AET.....	(100,569)	(90,569)					

Stock compensation expense.....		90,842
Amortization of deferred compensation.....		25,480
Deferred contract costs-warrant.....		--
Amortization of deferred contract costs.....		185,492
Exercise of warrants.....		75,187
Unrealized gain on investments.....		176,367
Cumulative translation adjustment.....		(22,906)
Effect of SI's excluded results.....	(2,156,399)	(2,156,399)
Net loss.....	(12,378,188)	(12,378,188)
	-----	-----
BALANCE AT MARCH 31, 1998.....	\$ (73,891,875)	\$12,859,066
	=====	=====

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.

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 \$9,273,901, \$6,867,444 and \$7,526,306 for the fiscal years ended March 31, 1998, 1997 and 1996, respectively. As discussed in Note 11, a significant portion of this contract revenue relates to development contracts with three stockholders Pirelli Cavi E Sistemi S.p.A. ("Pirelli"), Electricite de France (EDF), and Inco Alloys International, Inc. ("Inco"). Included in costs of revenue are research and development expenses of approximately \$7,494,000, \$5,322,000 and \$5,256,000 for the fiscal years ended March 31, 1998, 1997, and 1996, respectively. Selling, general and administrative expenses also included as costs of revenue for the fiscal years ended March 31, 1998, 1997 and 1996, were approximately \$3,394,000, \$2,186,000 and \$2,075,000, respectively.

As explained more fully in Note 3 to these financial statements, on April 8, 1997, the Company acquired Superconductivity Inc. ("SI") through the merger of a wholly owned subsidiary of the Company into 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, ASC acquired SI through the merger of a wholly owned subsidiary of the Company into 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 fiscal 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 and 1995 are included in the Company's results of operations for the fiscal years ended March 31, 1997 and 1996, respectively. SI's audited balance sheet at December 31, 1996 is included in the Company's balance sheet at March 31, 1997. 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. Additionally, SI's cash flow activity for the three months ended March 31, 1997 is listed as "Effect of SI's excluded results" on the Consolidated Statement of Cash Flows to account for the difference in the beginning cash and cash equivalents between December 31, 1996 and March 31, 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"). The transaction has been accounted for under the pooling of interests method of accounting. Due to the immaterial effect on the accompanying

NOTES TO CONSOLIDATED STATEMENTS -- (CONTINUED)

consolidated financial statements, the prior periods have not been adjusted to reflect the effect on the combined financial position, operating results and cash flows of the Company.

Principles of Consolidation

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

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, 1998 and 1997 was unbilled. The unbilled portion included in the accounts receivable balance was approximately \$1,611,000 or 54% of total accounts receivable and \$1,090,000 or 35% of total accounts receivable at March 31, 1998 and 1997, respectively. The Company expects the amounts to be billed in the first quarter of 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.

NOTES TO CONSOLIDATED STATEMENTS -- (CONTINUED)

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 fiscal 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

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share" effective December 28, 1997. SFAS No. 128 requires presentation of basic earnings per share ("EPS") and, for companies with complex capital structures, diluted EPS. Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS includes dilution and net income per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Common equivalent shares include the effect of the exercise of stock options. For the years ended March 31, 1998, 1997 and 1996, common equivalent shares of 275,749, 338,089 and 454,195, respectively were not included for the calculation of diluted EPS as they were considered antidilutive. The Company has restated net loss per share for all periods presented in the accompanying consolidated financial statements to reflect net loss per share on both a basic and a diluted basis.

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, was 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 0.3292 shares of the Company's common stock for each share of SI common stock.

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS -- (CONTINUED)

All fees and expenses related to the merger were expensed as required under the pooling of interests accounting method. Charges of \$75,767 in fiscal 1998 and \$710,105 in fiscal 1997 have been recorded in the 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 Note 2, SI's results of operations for the quarter ended March 31, 1997 are not included in the consolidated statement of operations. 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)

4. LONG-TERM MARKETABLE SECURITIES

Long-term marketable securities at March 31, 1998 consisted of the following:

	AGGREGATE COST -----	FAIR VALUE -----	GROSS UNREALIZED GAIN -----
U.S. government and U.S government agency securities.....	\$6,134,324	\$6,167,030	\$32,706

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, 1998 and 1997 consisted of the following:

	1998 -----	1997 -----
Raw materials.....	\$ 743,016	\$ 546,776
Work-in-progress.....	2,388,705	2,164,179
Finished goods.....	98,252	229,701
	-----	-----
	\$3,229,973	\$2,940,656
	=====	=====

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at March 31, 1998 and 1997 consisted of the following:

	1998 -----	1997 -----
Accounts payable.....	\$2,619,865	\$2,919,739
Accrued professional fees.....	27,543	585,522
Accrued expenses.....	366,554	563,051
Accrued vacation.....	319,500	215,300
	-----	-----
	\$3,333,462	\$4,283,612

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS -- (CONTINUED)

7. LONG-TERM DEBT

Long-term debt at March 31, 1998 and 1997 consisted of the following:

	1998	1997
	-----	-----
Subordinated convertible debentures, principal of \$2,537,492 plus accrued interest at 10%, aggregating \$536,171 at March 31, 1997, due January 1998.....	--	\$3,073,663
Subordinated notes, interest payable semiannually at 7%, due April 1999.....	\$3,141,793	--
Note payable to ABB Power T & D Company Inc., interest payable monthly at 7.5%, with principal due April 1998.....	29,609	673,428
	-----	-----
	3,171,402	3,747,091
Less amount due within one year.....	29,609	673,428
	-----	-----
	\$3,141,793	\$3,073,663
	=====	=====

In conjunction with the Merger, the 10% subordinated convertible debentures were exchanged for the 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.

Subsequent to fiscal 1998 year-end, on April 22, 1998, the Company completed a public offering of 3,504,121 shares of its common stock and received net proceeds of \$46,114,000 (before deducting offering expenses), approximately \$3,142,000 of which was then used to retire the 7% subordinated notes.

8. INCOME TAXES

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

	MARCH 31,	
	-----	-----
	1998	1997
	-----	-----
Deferred tax assets:		
Net operating loss carryforward.....	\$ 28,298,000	\$ 22,932,000
Research and development and other credits.....	2,349,000	2,035,000
Depreciation and other.....	911,000	1,918,000
Valuation allowance.....	(31,558,000)	(26,885,000)
	-----	-----
Net.....	--	--
	-----	-----

At March 31, 1998 the Company had available for federal income tax purposes net operating loss carryforwards of approximately \$54,460,000, which commence expiring in years 2005 through 2013. SI also had net operating loss carryforwards amounting to approximately \$16,284,000, the tax effect of which is included in the above schedule. 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 \$2,349,000 are available to offset federal and state income taxes and expire in years 2005 through 2013. 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 April 1997, the Company entered into a strategic alliance agreement with an affiliate of EDF under which EDF purchased one million shares of the Company's common stock at \$10 per share.

NOTES TO CONSOLIDATED STATEMENTS -- (CONTINUED)

Stock-Based Compensation Plans

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 FISCAL YEARS ENDED MARCH 31,		
		1998	1997	1996
		-----	-----	-----
Net loss (in thousands).....	As reported	\$ (12,378)	\$ (13,377)	\$ (9,698)
	Pro forma	\$ (13,725)	\$ (14,095)	\$ (9,871)
Loss per share.....	As reported	\$ (1.06)	\$ (1.27)	\$ (0.94)
	Pro forma	\$ (1.18)	\$ (1.34)	\$ (0.96)

The pro forma amounts include the effects of all activity under the Company'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 5.6%, 6.4% and 5.5% in fiscal 1998, fiscal 1997 and fiscal 1996 respectively; expected stock price volatility of 50%, for fiscal 1998 and 45% for fiscal 1997 and fiscal 1996; no dividends; and a weighted average life of the options of 5 years. The weighted average fair value of options granted during fiscal 1998, fiscal 1997 and fiscal 1996 was \$5.74 per share, \$5.02 per share and \$6.42 per share, respectively. 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.

The Company has six stock option plans including three 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 Director Stock Option Plan (the "1991 Director Plan") the 1994 Director Stock Option Plan (the "1994 Director Plan"), and the 1997 Director Stock Option Plan (the "1997 Director 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. The 1991, 1994 and 1997 Director Plans are stock option plans for members of the Board of Directors who are not also employees of the Company ("outside directors"). The 1997 Director 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. No further grants may be made under the 1987 Plan, the 1991 Director Plan or the 1994 Director Plan.

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.

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS -- (CONTINUED)

The following table summarizes information about stock options outstanding at March 31, 1998.

RANGE OF EXERCISE PRICE	OUTSTANDING		EXERCISABLE		
	NUMBER OUTSTANDING AT 3/31/98	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 3/31/98	WEIGHTED AVERAGE EXERCISE PRICE
\$ 0.27 - 4.65.....	79,015	2.3	\$0.75	79,015	\$0.75
4.65 - 9.30.....	414,636	5.4	8.00	302,521	7.76
9.30 - 13.94.....	1,346,490	8.4	11.03	326,190	11.35
13.94 - 18.58.....	398,099	6.2	16.85	270,707	17.00
18.58 - 23.23.....	386,250	6.1	21.25	237,450	21.22
	-----			-----	
\$ 0.27 - 23.23.....	2,624,490			1,215,883	
	=====			=====	

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

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE
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
Granted.....	576,450	10.56	
Exercised.....	(166,794)	1.81	
Canceled.....	(330,831)	17.93	
	-----		-----
Outstanding at March 31, 1998.....	2,624,490	\$12.63	1,215,883
	=====	=====	=====
Available for grant at March 31, 1998.....			873,891
			=====

Stock Purchase Warrants

The Company recorded an increase to additional paid-in capital and a corresponding charge to deferred contract costs of approximately \$336,000 in January 1998 related to the issuance of stock purchase warrants for 250,500 shares of common stock at \$10.20 per share which become exercisable over a four-year period following the date of grant. These warrants were granted in consideration of ongoing financial services being provided to the Company. Expense related to these warrants was approximately \$17,000 for the fiscal year ended March 31, 1998.

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, \$25,000, and \$30,000 was recorded for the fiscal years ended March 31, 1998, 1997 and 1996, respectively.

NOTES TO CONSOLIDATED STATEMENTS -- (CONTINUED)

10. COMMITMENTS

The Company rents its headquarters in Westborough, Massachusetts under an operating lease, which expires in May 2003. The Company also rents operating facilities near Madison, Wisconsin under two leases which expire on December 31, 2003. The Company has an option to extend these leases for additional five-year periods. The Company also rents facilities in Woburn, Massachusetts under a lease which expires in January 1999. Under all 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 ("Superlink"). In October 1997, the Company extended the technology development agreement with Superlink for an additional six-year period through September 2003, with payments totaling \$220,000 due the first year and payments of \$300,000 due each year for the next five years. The Company has the right to terminate this agreement under certain conditions.

Effective March 31, 1998, the Company signed an agreement with Lucent Technologies, Inc. ("Lucent") granting the Company a royalty-bearing, non-exclusive, worldwide license for superconductor wire under Lucent's portfolio of high temperature superconductor patents and patent applications. The license runs from March 31, 1998 until the expiration of the last-to-expire patent in the portfolio.

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

	1998 -----	1997 -----	1996 -----
Rent expense.....	\$531,546	\$520,850	\$495,283
Research and development expenses.....	\$510,593	\$135,000	\$150,000

Minimum future lease and license fee commitments at March 31, 1998 were as follows:

	TOTAL -----
For the years ended March 31	
1999.....	\$1,385,453
2000.....	1,201,146
2001.....	1,201,146
2002.....	1,201,146
2003.....	1,133,404
2004.....	155,030

11. RESEARCH AND DEVELOPMENT AGREEMENTS

In fiscal 1998, the Company entered into four-year research and development contracts with ABB Power Transmission and Distribution Company (ABB) and Electricite de France (EDF), a subsidiary of whom is a stockholder of the Company, to develop HTS wire for power transformers. The agreements, both of which expire on March 31, 2001 (subject to earlier termination by either party), obligate ABB and EDF to each pay an aggregate of \$5 million to the Company. Through March 31, 1998, ABB had paid the Company \$2.3 million (of which \$1.0 million was recorded as revenue in fiscal 1997) and EDF had paid the Company \$1.8 million. In March 1996, the Company extended its development contract with Pirelli, a stockholder of the Company, to jointly develop high temperature superconducting cable wires. The Company's development

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO CONSOLIDATED STATEMENTS -- (CONTINUED)

contract with Inco Alloys International was terminated in December 1996. The Company recorded revenues under these contracts as follows:

	1998	1997	1996
	-----	-----	-----
Inco.....	--	\$ 825,000	\$1,100,000
Pirelli.....	\$2,500,000	2,500,000	2,831,000
ABB.....	1,275,000	1,000,000	--
EDF.....	1,800,000	--	--
	-----	-----	-----
	\$5,575,000	\$4,325,000	\$3,931,000
	=====	=====	=====

Future funding commitments under these contracts are \$8,675,000 over the next three years, \$2,725,000 from ABB, \$3,200,000 from EDF, and \$2,750,000 from Pirelli.

In March 1996, the Company entered into a new strategic alliance with the Electric Power Research Institute (EPRI) to develop and commercialize a possible next-generation HTS wire. In March 1996, under the first phase of the agreement, a warrant for 100,000 shares of common stock of the Company was granted to EPRI, which becomes exercisable over a five-year period following the date of grant. In March 1998, under the second phase of the agreement, the Company agreed to grant to EPRI another warrant to purchase 110,000 shares of common stock of the Company, which will become exercisable over the next five years. The Company will receive exclusive license rights to certain 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 \$618,000 and \$637,000 in fiscal 1998 and 1997, respectively, relating to these warrants. Warrant expense related to these agreements was \$166,000 and \$80,000 for the fiscal years ended March 31, 1998 and 1997, respectively.

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 and funding under these agreements of \$3,139,000 and \$1,771,000, respectively for fiscal 1998, \$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, 1998, total funding received to date under these agreements was \$8,130,000. Future funding expected to be received under existing agreements is approximately \$4,078,000 over the next three 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 Company has recorded compensation expense of \$349,400 in fiscal 1998 as a result of the forgiveness of the remaining principal and interest on the loan by the Compensation Committee on May 14, 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 1998, 1997 or 1996). The Company does not have post-retirement or post-employment benefit plans.

NOTES TO CONSOLIDATED STATEMENTS -- (CONTINUED)

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 for 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

On April 22, 1998 the Company completed a public offering of 3,504,121 shares of its common stock and received net proceeds (before deducting offering expenses) of \$46,114,000, of which approximately \$3,142,000 was used to retire the Company's subordinated notes.

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.

AMERICAN SUPERCONDUCTOR CORPORATION

OFFICERS AND VICE PRESIDENTS, DIRECTORS AND FOUNDERS

BOARD OF DIRECTORS

Gregory J. Yurek, Ph.D.
President, Chief Executive Officer and
Chairman of the Board

Albert J. Baciocco, Jr.
Vice Admiral, U.S. Navy (Retired)
President, The Baciocco Group, Inc.

Colonel Frank Borman
Chairman of the Board, DBT Online Inc.
President, Patlex Corporation

Peter O. Crisp
Vice Chairman
Rockefeller Financial Services, Inc.

Richard Drouin, O.C., Q.C.
Partner, McCarthy Tétrault
Vice Chairman, Morgan Stanley Canada Limited
Former Chairman and Chief Executive Officer
Hydro-Quebec

Gerard J. Menjon
Executive Vice President
Head of Research & Development Division
Electricite de France

Andrew G.C. Sage II
President, Sage Capital Corporation

John B. Vander Sande, Ph.D.
Cecil and Ida Green Distinguished Professor
Department of Material Science and Engineering
Associate Dean of Engineering
Massachusetts Institute of Technology

CORPORATE OFFICERS AND VICE PRESIDENTS

Gregory J. Yurek, Ph.D.
President, Chief Executive Officer and
Chairman of the Board

Stanley D. Piekos
Vice President, Corporate Development,
Chief Financial Officer, Treasurer and Secretary

Paul F. Koeppel
Executive Vice President
Strategic Planning for Power Quality Solutions

Roland E. Lefebvre
Executive Vice President, Chief Operating Officer

Alexis P. Malozemoff, Ph.D.
Senior Vice President
Chief Technical Officer

Ross S. Gibson
Vice President, Human Resources

John B. Howe
Vice President, Electric Industry Affairs

Gero G. Papst, Ph.D.
Managing Director
American Superconductor Europe GmbH

Robert E. Schwall, Ph.D.
Vice President, Engineering

John D. Scudiere
Vice President, Manufacturing

FOUNDERS

Dr. Yet-Ming Chiang, Ph.D.
Kyocera, Professor of Ceramics
Department of Materials Science and Engineering
Massachusetts Institute of Technology

David A. Rudman, Ph.D.
Project Leader
Electro Magnetic Technology Division
National Institute of Standards and Technology

John B. Vander Sande, Ph.D.
(see above)

Gregory J. Yurek, Ph.D.
(see above)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Gregory J. Yurek

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

Date: June 25, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name -----	Title -----	Date -----
/s/ Gregory J. Yurek ----- Gregory J. Yurek	Director, Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	June 25, 1998
/s/ Stanley Piekos ----- Stanley Piekos	Vice President, Corporate Development, Chief Financial Officer, Treasurer (Principal Financial Officer and Principal Accounting Officer) and Secretary	June 25, 1998
/s/ Albert J. Baciocco, Jr. ----- Albert J. Baciocco, Jr.	Director	June 25, 1998
/s/ Frank Borman ----- Frank Borman	Director	June 25, 1998
/s/ Peter O. Crisp ----- Peter O. Crisp	Director	June 25, 1998

----- Richard Drouin	Director))	June __, 1998
/s/ Gerard J. Menjon ----- Gerard J. Menjon	Director))	June 25, 1998
/s/ Andrew G.C. Sage, II ----- Andrew G.C. Sage, II	Director))	June 25, 1998
/s/ John B. Vander Sande ----- John B. Vander Sande	Director))	June 25, 1998

EXHIBIT INDEX

Exhibit No. -----	Description -----	Page No. -----
3.1**	-Restated Certificate of Incorporation of the Registrant	
3.2*	-By-laws of the Registrant, as amended to date	
4.1*	-Specimen Certificate for shares of Common Stock, \$.01 par value, of the Registrant	
\$\$10.1*	-Employment Agreement dated as of December 4, 1991 between the Registrant and Gregory J. Yurek	
\$\$10.2*	-Employment Agreement dated as of December 4, 1991 between the Registrant and Alexis P. Malozemoff	
10.3*	-Form of Employee Nondisclosure and Developments Agreement	
\$\$10.4*	-Employee Nondisclosure and Developments Agreement dated as of December 26, 1990 between the Registrant and Alexis P. Malozemoff	
\$\$10.5*	-Noncompetition Agreement dated as of July 10, 1987 between the Registrant and John Vander Sande	
\$10.6*	-License Agreement between the Registrant and MIT dated as of July 6, 1987	
\$10.7*	-License Agreement between the Registrant and MIT dated as of January 31, 1989	
\$10.8*	-License Agreement dated as of August 1, 1991	
\$10.9*	-License Agreement dated as of September 1, 1991	
\$10.10**	-Second Amendment dated as of January 27, 1992 between the Registrant and MIT amending the License Agreement dated as of July 6, 1987 between the Registrant and MIT	
\$10.11***	-Technology Development and Patent Licensing Agreement dated October 7, 1992 among the Registrant and Electricity Corporation of New Zealand Limited and Industrial Research Limited	
\$\$10.12***	-Employment Agreement dated as of December 31, 1992 between American Superconductor Europe GmbH and Dr. Gero Papst	
10.13***	-Lease dated March 9, 1993 between CGLIC on Behalf of its Separate Account R, as Landlord, and the Registrant	
10.14+	-First Amendment to Lease between CGLIC, on Behalf of its Separate Account R, as Landlord, and the Registrant, as Tenant dated October 27, 1993	
\$\$10.15***	-1993 Stock Option Plan	

10.16++ -Agreement dated January 1, 1994 between Pirelli Cavi S.p.A. and the Registrant

\$10.17### -Agreement between Pirelli Cavi S.p.A. and American Superconductor Corporation, dated October 1, 1995

10.18++ -Technology Development and Patent Licensing Agreement, First Amendment dated August 7, 1993 among the Registrant and Electricity Corporation of New Zealand and Industrial Research Limited

10.19+++ -Subcontract Agreement effective as of September 30, 1993 by and between the Registrant and Reliance Electric Company

\$10.20# -Fourth Amendment, dated May 15, 1995, to the Exclusive License Agreement between the Registrant and MIT dated July 6, 1987

\$\$10.21## -1996 Stock Incentive Plan

\$10.22### -Management Agreement between Electric Power Research Institute, Inc. and American Superconductor Corporation, effective January 1, 1996

\$10.23### -Technology License Agreement between Electric Power Research Institute, Inc. and American Superconductor Corporation, effective January 1, 1996

\$10.24### -Warrant granted to Electric Power Research Institute, Inc. by American Superconductor Corporation, dated March 26, 1996.

10.25@ -Strategic Alliance Agreement by and among the Registrant and CHARTH (Compagnie Holding D'Applications Et De Realisations Thermiques Et Hydrauliques), dated as of April 1, 1997

\$\$10.26 -1997 Director Stock Option Plan

\$\$\$10.27 -Patent License Agreement between Lucent Technologies Inc. and the Registrant, dated as of March 31, 1998

\$\$\$10.28 -Agreement dated April 1, 1997 by and among Electricite de France and the Registrant

\$\$\$10.29 -Agreement effective April 1, 1997 by and between ABB Transmission & Distribution Technology Ltd. and the Registrant

21.1 -Subsidiaries

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

23.2 -Consent of Smith & Gesteland, LLP

23.3 -Consent of Ernst & Young LLP

27.1 -Financial Data Schedule

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* Incorporated by reference to Exhibits to the Registrant's Registration Statement on Form S-1 (File No. 33-43647).

** Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K filed with the Commission on June 29, 1992.

*** Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K filed with the Commission on June 29, 1993.

- + Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1993 filed with the Commission on January 26, 1994.
- ++ Incorporated by reference to Exhibits to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q/A for the quarter ended December 31, 1993 filed with the Commission on March 28, 1994.
- +++ Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K filed with the Commission on June 29, 1994.
- # Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K filed with the Commission on June 29, 1995.
- ## Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K filed with the Commission on June 28, 1996.
- ### Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K/A filed with the Commission on March 10, 1997.
- @ Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K filed with the Commission on June 30, 1997.
- \$ Confidential treatment previously requested and granted with respect to certain portions, which portions were omitted and filed separately with the Commission.
- \$\$ Management contract or compensatory plan or arrangement required to be filed as an Exhibit to this Form 10-K.
- \$\$\$ Confidential treatment requested as to certain portions, which portions were omitted and filed separately with the Commission with this Annual Report on Form 10-K.

AMERICAN SUPERCONDUCTOR CORPORATION

1997 DIRECTOR STOCK OPTION PLAN

1. PURPOSE.

The purpose of this 1997 Director Stock Option Plan (the "Plan") of American Superconductor Corporation (the "Company") is to encourage stock ownership in the Company by outside directors of the Company whose continued services are considered essential to the Company's future success and to provide them with a further incentive to remain as directors of the Company.

2. ADMINISTRATION.

The Board of Directors shall supervise and administer the Plan. Grants of stock options under the Plan and the amount and nature of the options to be granted shall be automatic in accordance with Section 5. However, all questions concerning interpretation of the Plan or any options granted under it shall be resolved by the Board of Directors and such resolution shall be final and binding. No director or person acting pursuant to the authority delegated by the Board of Directors shall be liable for any action or determination relating to or under the Plan made in good faith.

3. PARTICIPATION IN THE PLAN.

Directors of the Company who are not full-time employees of the Company or any subsidiary of the Company ("Outside Directors") shall be eligible to receive options under the Plan, except that Directors of the Company who are representatives of an equity holder of the Company shall not be eligible to receive options under the Plan.

4. STOCK SUBJECT TO THE PLAN.

(a) The maximum number of shares of the Company's Common Stock, par value \$.01 per share ("Common Stock"), which may be issued under the Plan shall be 240,000 shares, subject to adjustment as provided in Section 7.

(b) If any outstanding option under the Plan for any reason expires or is terminated without having been exercised in full, the shares covered by the unexercised portion of such option shall again become available for issuance pursuant to the Plan.

(c) All options granted under the Plan shall be non-statutory options not entitled to special tax treatment under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

(d) Shares issued under the Plan may consist in whole or in part of authorized but unissued shares or treasury shares.

5. TERMS, CONDITIONS AND FORM OF OPTIONS.

Each option granted under the Plan shall be evidenced by a written agreement in such form as the President or the Executive Vice President, Corporate Development, shall from time to time approve, which agreements shall comply with and be subject to the following terms and conditions:

(a) OPTION GRANT DATES AND SHARES SUBJECT TO OPTION. Options will be granted under the Plan as follows:

(i) INITIAL GRANTS TO CURRENT OUTSIDE DIRECTORS. Provided that all stock options previously granted to a person serving as an Outside Director under another director stock option plan of the Company are vested completely or that such Outside Director has not yet been granted an option, an option to purchase 40,000 shares of Common Stock shall be granted automatically to each person serving as an Outside Director of the Company upon the approval of the Plan by the stockholders of the Company. For persons serving as Outside Directors whose stock options previously granted under another director stock option plan of the Company have not vested completely as of the date of the approval of the Plan by the stockholders of the Company, an option to purchase 40,000 shares of Common Stock shall be granted automatically on the first business day following the date that such stock options are vested completely, provided that such person is serving as an Outside Director as of such date.

(ii) INITIAL GRANTS TO FUTURE OUTSIDE DIRECTORS. An option to purchase 40,000 shares of Common Stock shall be granted automatically to each Outside Director first elected to the Board of Directors after the date of the approval of the Plan by the stockholders of the Company, upon the date of his or her initial election to the Board of Directors.

(b) OPTION EXERCISE PRICE. The option exercise price per share for each option granted under the Plan shall be equal to the fair market value per share of Common Stock on the date of grant, which shall be determined as follows: (i) if the Common Stock is listed on the Nasdaq National Market or another nationally recognized exchange or trading system as of the date on which a determination of fair market value is to be made, the fair market value per share shall be deemed to be the last reported sale price per share of Common Stock thereon on such date (or, if no such price is reported on such date, such price on the nearest preceding date on which such a price is reported); and (ii) if the Common Stock is not listed on the Nasdaq

National Market or another nationally recognized exchange or trading system as of the date on which a determination of fair market value is to be made, the fair market value per share shall be as determined by the Board of Directors.

(c) TRANSFERABILITY OF OPTIONS. Except as the Board of Directors may otherwise determine, options shall not be sold, assigned, transferred, pledged or otherwise encumbered by the person to whom they are granted, either voluntarily or by operation of law, except by will or the laws of descent and distribution, and, during the life of the optionee, shall be exercisable only by the optionee. References to a optionee, to the extent relevant in the context, shall include references to authorized transferees, if any.

(d) VESTING PERIOD.

(i) GENERAL. Each option granted under the Plan shall become exercisable in equal annual installments over the four year period following the date of grant.

(ii) ACCELERATION UPON AN ACQUISITION EVENT.

Notwithstanding the foregoing, each outstanding option granted under the Plan shall immediately become exercisable in full in the event an Acquisition Event (as defined in Section 8) of the Company occurs.

(e) TERMINATION. Each option shall terminate, and may no longer be exercised, on the earlier of the (i) the date ten years after the date of grant or (ii) the date 60 days after the optionee ceases to serve as a director of the Company for any reason, whether by death, resignation, removal or otherwise.

(f) EXERCISE PROCEDURE. Options may be exercised only by written notice to the Company at its principal office accompanied by (i) payment in cash or by certified or bank check of the full consideration for the shares as to which they are exercised or (ii) an irrevocable undertaking, in form and substance satisfactory to the Company, by a broker to deliver promptly to the Company sufficient funds to pay the exercise price or (iii) delivery of irrevocable instructions, in form and substance satisfactory to the Company, to a broker to deliver promptly to the Company cash or a check sufficient to pay the exercise price.

(g) EXERCISE BY REPRESENTATIVE FOLLOWING DEATH OF DIRECTOR. An optionee, by written notice to the Company, may designate one or more persons (and from time to time change such designation), including his or her legal representative, who, by reason of the optionee's death, shall acquire the right to exercise all or a portion of the option. If the person or persons so designated wish to exercise any portion of the option, they must do so within the term of the option as provided herein. Any exercise by a representative shall be subject to the provisions of the Plan.

6. LIMITATION OF RIGHTS.

(a) NO RIGHT TO CONTINUE AS A DIRECTOR. Neither the Plan, nor the granting of an option nor any other action taken pursuant to the Plan, shall constitute or be evidence of any agreement or understanding, express or implied, that the optionee shall be entitled to continue as a director for any period of time.

(b) NO STOCKHOLDER RIGHTS FOR OPTIONS. An optionee shall have no rights as a stockholder with respect to the shares covered by his or her option until the date of the issuance to him or her of a stock certificate therefor, and no adjustment will be made for dividends or other rights (except as provided in Section 7) for which the record date is prior to the date such certificate is issued. Notwithstanding the foregoing, in the event the Company effects a split of the Common Stock by means of a stock dividend, and the distribution date (i.e., the date on which the closing market price of the Common Stock on a stock exchange or trading system is adjusted to reflect the split) is subsequent to the record date for such stock dividend, an optionee who exercises an option between the close of business on such record date and the close of business on such distribution date shall be entitled to receive the stock dividend with respect to the shares of Common Stock acquired upon such option exercise, notwithstanding the fact that such shares were not outstanding as of the close of business on such record date.

(c) COMPLIANCE WITH SECURITIES LAWS. Each 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 to such option upon any securities exchange or under any state or federal law, or the consent or approval of any governmental or regulatory body, or the disclosure of non-public information or the satisfaction of any other condition is necessary as a condition to, or in connection with, the issuance or purchase of shares thereunder, such option may not be exercised, in whole or in part, unless such listing, registration, qualification, consent or approval, or satisfaction of such condition shall have been effected or obtained on conditions acceptable to the Board of Directors.

7. ADJUSTMENT TO COMMON STOCK. In the event of any stock split, stock dividend, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, liquidation, spin-off or other similar change in capitalization or event, or any distribution to holders of Common Stock other than a normal cash dividend, (i) the number and class of securities available under this Plan and (ii) the number and class of security and exercise price per share subject to each outstanding option shall be appropriately adjusted by the Company to the extent the Board shall determine, in good faith, that such an adjustment is necessary and appropriate. No fractional shares will be issued under the Plan on account of any such adjustments. If this Section 7 applies and Section 8 also applies to any event, Section 8 shall be applicable to such event and this Section 7 shall not be applicable.

Notwithstanding the foregoing, in the event the Company effects a split of the Common Stock by means of a stock dividend, and the distribution date (i.e., the date on which the closing market price of the Common Stock on a stock exchange or trading system is adjusted to reflect the split) is subsequent to the record date for such stock dividend, an optionee who exercises an option between the close of business on such record date and the close of business on such distribution date shall be entitled to receive the stock dividend with respect to the shares of Common Stock acquired upon such option exercise, notwithstanding the fact that such shares were not outstanding as of the close of business on such record date.

8. ACQUISITION EVENTS.

CONSEQUENCES OF ACQUISITION EVENTS. Upon the occurrence of an Acquisition Event (as defined below), or the execution by the Company of any agreement with respect to an Acquisition Event, the Board shall take any one or more of the following actions with respect to then outstanding options: (i) provide that outstanding options shall be assumed, or equivalent options shall be substituted, by the acquiring or succeeding corporation (or an affiliate thereof), provided that any such options substituted for such options shall satisfy, in the determination of the Board, the requirements of Section 424(a) of the Internal Revenue Code of 1986, as amended; (ii) upon written notice to the optionees, provide that all then unexercised options will become exercisable in full as of a specified time (the "Acceleration Time") prior to the Acquisition Event and will terminate immediately prior to the consummation of such Acquisition Event, except to the extent exercised by the optionees between the Acceleration Time and the consummation of such Acquisition Event; and (iii) in the event of an Acquisition Event under the terms of which holders of Common Stock will receive upon consummation thereof a cash payment for each share of Common Stock surrendered pursuant to such Acquisition Event (the "Acquisition Price"), provide that all outstanding options shall terminate upon consummation of such Acquisition Event and each optionee shall receive, in exchange therefor, a cash payment equal to the amount (if any) by which (A) the Acquisition Price multiplied by the number of shares of Common Stock subject to such outstanding options (whether or not then exercisable), exceeds (B) the aggregate exercise price of such options.

An "Acquisition Event" shall mean: (x) any merger or consolidation which results in the voting securities of the Company outstanding immediately prior thereto representing immediately thereafter (either by remaining outstanding or by being converted into voting securities of the surviving or acquiring entity) less than 50% of the combined voting power of the voting securities of the Company or such surviving or acquiring entity outstanding immediately after such merger or consolidation; (y) any sale of all or substantially all of the assets of the Company; or (z) the complete liquidation of the Company.

9. MODIFICATION, EXTENSION AND RENEWAL OF OPTIONS.

The Board of Directors shall have the power to modify or amend outstanding options; provided, however, that no modification or amendment may (i) have the effect of altering or impairing any rights or obligations of any option previously granted without the consent of the optionee, or (ii) modify the number of shares of Common Stock subject to the option (except as provided in Section 7).

10. TERMINATION AND AMENDMENT OF THE PLAN.

The Board of Directors may suspend, terminate or discontinue the Plan or amend it in any respect whatsoever; provided, however, that without approval of the stockholders of the Company, no amendment may (i) increase the number of shares subject to the Plan (except as provided in Section 7), or (ii) effect any action which requires approval of the stockholders pursuant to the rules or requirements of the Nasdaq National Market or any other exchange on which the Common Stock of the Company is listed.

11. NOTICE.

Any written notice to the Company required by any of the provisions of the Plan shall be addressed to the Treasurer of the Company and shall become effective when it is received.

12. GOVERNING LAW.

The Plan and all determinations made and actions taken pursuant hereto shall be governed by the laws of the State of Delaware.

13. STOCKHOLDER APPROVAL.

The Plan is conditional upon stockholder approval of the Plan within one year from its date of adoption by the Board of Directors, and no option may be granted under the Plan until such stockholder approval is obtained.

As adopted by the Board of Directors on
July 24, 1997 and approved by the
shareholders on September 5, 1997.

CONFIDENTIAL TREATMENT
AMERICAN SUPERCONDUCTOR CORPORATION HAS
REQUESTED THAT THE MARKED PORTIONS OF THIS
DOCUMENT BE ACCORDED CONFIDENTIAL TREATMENT
PURSUANT TO RULE 24b-2 UNDER THE SECURITIES
EXCHANGE ACT OF 1934, AS AMENDED

PATENT LICENSE AGREEMENT

BETWEEN

LUCENT TECHNOLOGIES INC.

AND

AMERICAN SUPERCONDUCTOR CORPORATION

EFFECTIVE AS OF MARCH 31, 1998

RELATING TO SUPERCONDUCTIVE WIRE PRODUCTS
AND RELATED SYSTEMS

PATENT LICENSE AGREEMENT

TABLE OF CONTENTS

ARTICLE 1 - GRANTS OF LICENSES.....	1
1.01 Grant.....	1
1.02 Duration.....	1
1.03 Scope.....	1
1.04 Ability to Provide Licenses.....	2
1.05 Publicity.....	3
1.06 Confidentiality.....	3
ARTICLE 2 - ROYALTY AND PAYMENTS.....	4
2.01 Royalty Calculation.....	4
2.02 Accrual.....	5
2.03 Exclusions and Limitations.....	5
2.04 Records and Adjustments.....	6
2.05 Reports and Payments.....	6
ARTICLE 3 - TERMINATION.....	7
3.01 Breach.....	7
3.02 Voluntary Termination.....	9
3.03 Survival.....	9
ARTICLE 4 - MISCELLANEOUS PROVISIONS.....	9
4.01 Patents Licensed.....	9
4.02 Disclaimer.....	10
4.03 Indemnification.....	10
4.04 Nonassignability and Change of Control of ASC.....	10
4.05 Addresses.....	12
4.06 Taxes.....	12
4.07 Choice of Law.....	12
4.08 Patents and Patent Applications.....	13
4.09 Licensing.....	13
4.10 Integration.....	13
4.11 Dispute Resolution.....	13
4.12 Outside of the United States.....	14
4.13 Releases.....	15
4.14 Good Faith Negotiations and Option.....	15

PATENT LICENSE AGREEMENT

Effective as of March 31, 1998, LUCENT TECHNOLOGIES INC., a Delaware corporation ("LUCENT"), having an office at 600 Mountain Avenue, Murray Hill, New Jersey 07974, and AMERICAN SUPERCONDUCTOR CORPORATION, a Delaware corporation ("ASC"), having an office at Two Technology Drive, Westborough, Massachusetts 01581, agree as follows:*

ARTICLE 1

GRANTS OF LICENSES

1.01 GRANT

LUCENT grants to ASC under LUCENT's PATENTS personal, nonexclusive and nontransferable licenses to make, to have made, use, lease, offer for sale, sell and import products of the following kind:

SUPERCONDUCTIVE WIRE PRODUCT
SUPERCONDUCTIVE WIRE WITHIN A SYSTEM
SYSTEMS PRODUCTS INCLUDING SUPERCONDUCTIVE WIRE PRODUCT

1.02 DURATION

All licenses granted herein under any patent shall continue for the entire unexpired term of such patent.

1.03 SCOPE

(a) Licenses granted herein are not to be construed either (i) as consent by LUCENT to any act which may be performed by ASC, except to the extent impacted by a patent licensed herein to ASC, or (ii) to include licenses to contributorily infringe or induce infringement under U.S. law or a foreign equivalent thereof. As a result, the licenses granted herein to the ASC are licenses to (i) make, have made, use, lease, offer for sale, sell and import LICENSED PRODUCTS; (ii) make, have made, use and import machines, tools, materials and other instrumentalities, insofar as such machines, tools, materials and other instrumentalities are involved in or incidental to the development, manufacture, testing or repair of LICENSED PRODUCTS which are

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* ANY TERM IN CAPITAL LETTERS WHICH IS DEFINED IN THE DEFINITIONS APPENDIX SHALL HAVE THE MEANING SPECIFIED THEREIN.

or have been made by or are used, leased, owned, sold or imported by the grantee of such license; and (iii) convey to any customer of the grantee, with respect to any LICENSED PRODUCTS which is sold or leased by such grantee to such customer, rights to use and resell such LICENSED PRODUCTS as sold or leased by such grantee (whether or not as part of a larger combination); provided, however, that no rights may be conveyed to customers with respect to any invention which is directed to (1) a combination of such LICENSED PRODUCTS (as sold or leased) with any other product; however, nothing herein shall prohibit ASC from selling or delivering to third parties any LICENSED PRODUCTS made by ASC and licensed under this Agreement, (2) a method or process which is other than the inherent use of such LICENSED PRODUCTS itself (as sold or leased), or (3) a method or process involving the use of LICENSED PRODUCTS to manufacture (including associated testing) any other product. ASC customers, however, shall have the right to service and test LICENSED PRODUCTS, but such right does not include any rights or licenses to any patents of LUCENT, including but not limited any rights to make, have made, offer for sale, import, use or sell products that go to combinations of LICENSED PRODUCTS. The rights granted herein to ASC under this Agreement do not include licenses for products manufactured by a third party and sold by a Party to this Agreement where such sales do not meet a legitimate business purpose but are merely for the purpose of sublicensing LUCENT's PATENTS to such third party.

(b) The grant of each license hereunder includes the right of ASC to grant sublicenses within the scope of such license to ASC's SUBSIDIARIES for so long as they remain its SUBSIDIARIES. Any such sublicense may be made effective retroactively, but not prior to the effective date hereof, nor prior to the sublicensee becoming a SUBSIDIARY of ASC. If ASC is at least a minority owner, but not less than a thirty percent (30%) owner, of an entity in a foreign country where majority ownership by ASC is prohibited by law and ASC has control and management of said entity, then LUCENT shall reasonably consider all requests by ASC that such entity be considered a SUBSIDIARY hereunder. All such requests must be in writing from ASC to LUCENT.

1.04 ABILITY TO PROVIDE LICENSES

LUCENT's failure to meet any obligation hereunder, due to the assignment of title to any invention or patent, or the granting of any licenses, to the United States Government or any agency or designee thereof pursuant to a statute or regulation of, or contract with, such Government or agency, shall not constitute a breach of this Agreement. As of the execution date, LUCENT is unaware of any governmental claims to the patents licensed by this Agreement.

1.05 PUBLICITY

Nothing in this Agreement shall be construed as conferring upon ASC or its SUBSIDIARIES any right to include in advertising, packaging or other commercial activities related to a LICENSED PRODUCT, any reference to LUCENT (or any of its SUBSIDIARIES), its trade names, trademarks or service marks in a manner which would be likely to cause confusion or to indicate that such LICENSED PRODUCT is in any way certified by LUCENT or its SUBSIDIARIES.

1.06 CONFIDENTIALITY

(a) Both Parties shall hold the financial terms and conditions of this Agreement in confidence. Notwithstanding the foregoing, the confidentiality restrictions of this Agreement shall not apply to any information:

- (i) lawfully received by a Party to this Agreement from another source having the right to so furnish such information; or
- (ii) after it has become generally available to the public without breach of this Agreement by either Party to this Agreement; or
- (iii) which the Parties agree in writing is free of such restrictions;
- (iv) which is necessary pursuant to any court order and where the non-disclosing Party has been given notice of such an order;
- (v) which must be disclosed as required by rules of the Security Exchange Commission, but only to the extent that ASC has provided LUCENT with the opportunity, at least ten (10) days prior to ASC's initial EDGAR filing of the Agreement, to designate the terms and conditions of the Agreement for which LUCENT proposes confidential treatment in the filing, and where ASC has made its initial EDGAR filing in accordance with LUCENT's proposal, and ASC uses reasonable efforts to obtain and to keep confidential treatment of the terms and conditions designated by LUCENT;
- (vi) which ASC discloses to its development partner, Pirelli Cavi e Sistemi, S.p.A., an Italian Corporation having an office at Viale Sarca 222, 20126 Milano, Italy and its wholly owned subsidiaries ("Pirelli") pursuant to a confidentiality agreement between ASC and Pirelli that is similar in scope to this Section 1.06; or

CONFIDENTIAL TREATMENT
AMERICAN SUPERCONDUCTOR CORPORATION HAS
REQUESTED THAT THE MARKED PORTIONS OF THIS
DOCUMENT BE ACCORDED CONFIDENTIAL TREATMENT
PURSUANT TO RULE 24b-2 UNDER THE SECURITIES
EXCHANGE ACT OF 1934, AS AMENDED

- (vii) ASC, BTG USA, Inc. and LUCENT shall be permitted to disclose to raw material vendors that LUCENT provides ASC with a [**] for using raw material vendors that are licensed for such materials and processes covered under LUCENT's PATENTS.

ARTICLE 2

ROYALTY AND PAYMENTS

2.01 ROYALTY CALCULATION

(a) ASC will pay an initial licensing fee of [**] U.S.) due on the effective date hereto, but payable in two (2) parts. The first part of the initial payment in the amount of [**] U.S.) is due within the later of twenty-four (24) hours or the next business day of execution by the last party of this Agreement. As to this first part of the initial payment, time is of the essence; and the agreement will have no effect if such payment is not made within the twenty-four (24) hour time noted above. The second part of the initial payment in the amount of [**] U.S.) is due no later than August 31, 1998. As to this second part of the initial payment, time is of the essence; and this Agreement will automatically terminate on September 1, 1998 if such payment is untimely. The initial payment of [**] U.S.) is irrevocable and non-refundable.

(b) Continuing royalties shall be payable to LUCENT at the rate of [**] on all [**] which is sold, leased, or put into use by ASC, or any of its SUBSIDIARIES [**]. Such royalty rate shall be applied, except as otherwise provided in this Article 2, to the FAIR MARKET VALUE of such [**].

(c) Continuing royalty payments under Section 2.01(b) are due and payable [**] for all LICENSED PRODUCTS sold, leased or put into use after [**].

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EXCHANGE ACT OF 1934, AS AMENDED

(d) If LUCENT loses the [**] and exhausts or chooses not to file appeals during the time period from the date of this Agreement to [**], then ASC will be credited [**] U.S.) only against future royalties due during the time period from [**] until [**]. If LUCENT loses the [**] and exhausts or chooses not to file appeals after [**], then ASC will be credited [**] U.S.) in the subsequent five (5) year period thereafter only against future royalties. If ASC incurs no future royalty obligation or less than the credited amount of [**] U.S.), then it forfeits the credit or balance of said credit. In no circumstance will LUCENT make a payment to ASC pursuant said credit provided by this Section 2.01(d).

(e) If ASC purchased its raw materials for the LICENSED PRODUCTS hereunder from a LICENSEE OF LUCENT, ASC shall have to pay a [**] royalty rate of [**] under Section 2.01(b) for the sale of LICENSED PRODUCTS made from raw materials purchased from a LICENSE OF LUCENT.

2.02 ACCRUAL

(a) Royalty shall accrue on any LICENSED PRODUCT [**] and shall become payable upon the first sale, lease or putting into use of such LICENSED PRODUCT. (Rebuilding or enlarging any product shall be deemed to be a first putting into use of such product to the extent [**] is [**] or [**] or where any [**] is [**] and [**] is not due to expected and normal product life wear. Testing of LICENSED PRODUCT by on or behalf of ASC shall not be deemed putting into use). Obligations to pay accrued royalties shall survive termination of licenses and rights pursuant to Article 3 and the expiration of any patent.

(b) When a company ceases to be a SUBSIDIARY of ASC, royalties which have accrued with respect to any products of such company, but which have not been paid, shall become payable with ASC's next scheduled royalty payment.

(c) Notwithstanding any other provisions hereunder, royalty shall accrue and be payable only to the extent that enforcement of ASC's obligation to pay such royalty would not be prohibited by applicable law.

2.03 EXCLUSIONS AND LIMITATIONS

(a) A LICENSED PRODUCT of one or more of LUCENT's PATENTS, may be treated by ASC as not licensed and not subject to royalty with respect to sales of such LICENSED PRODUCT if the purchaser is licensed under the same one or more

patents to have said LICENSED PRODUCT made and/or imported, and the purchaser advises ASC, in writing at or prior to the time of such sale, that it is exercising its own license under such one or more patents with respect to such manufacture and/or importation.

(b) Subject to the exhaustion principle, payment of a royalty shall be due for any LICENSED PRODUCT manufactured, used, sold, put into use or imported by ASC or its SUBSIDIARIES even though such LICENSED PRODUCT may incorporate materials or components, which materials or components are (i) covered by one or more claims of LUCENT's PATENTS and (ii) purchased by ASC or its SUBSIDIARIES from a third party having a license to LUCENT's PATENTS.

2.04 RECORDS AND ADJUSTMENTS

(a) ASC shall keep full, clear and accurate records with respect to all LICENSED PRODUCTS and shall furnish any information which LUCENT may reasonably prescribe from time to time to enable LUCENT to ascertain the proper royalty due hereunder on account of products sold, leased and put into use by ASC or any of its SUBSIDIARIES. ASC shall retain such records with respect to each LICENSED PRODUCT for at least seven (7) years from the sale, lease or putting into use of such LICENSED PRODUCT. LUCENT shall have the right through its accredited auditors to make an examination by giving ASC thirty (30) days written notice, during normal business hours, of all records and accounts bearing upon the amount of royalty payable to it hereunder. Prompt adjustment shall be made to compensate for any errors or omissions disclosed by such examination. All such information reviewed will be treated as confidential by LUCENT and its auditors in accordance with Section 1.06 of this Agreement.

(b) Independent of any such examination, LUCENT will credit to ASC the amount of any overpayment of royalties made in error which is identified and fully explained in a written notice to LUCENT delivered within twelve (12) months after the due date of the payment which included such alleged overpayment, provided that LUCENT is able to verify, to its own satisfaction, the existence and extent of the overpayment.

(c) No refund, credit or other adjustment of royalty payments shall be made by LUCENT except as provided in this Section 2.04 and Sections 2.01(d) and (e) of this Agreement. Rights conferred by this Section 2.04 shall not be affected by any statement appearing on any check or other document, except to the extent that any such right is expressly waived or surrendered by a party having such right and signing such statement.

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 EXCHANGE ACT OF 1934, AS AMENDED

2.05 REPORTS AND PAYMENTS

(a) [**] and at all times thereafter, that within sixty (60) days after the end of each semiannual period ending on June 30th or December 31st, commencing with the semiannual period during which this Agreement first becomes effective, ASC shall furnish to LUCENT at the address specified in Section 4.03 a statement certified by a responsible official of ASC showing in a manner acceptable to LUCENT:

- (i) all LICENSED PRODUCTS which were sold, leased or put into use during such semiannual period;
- (ii) the FAIR MARKET VALUES of all [**] or [**] LICENSED PRODUCTS;
- (iii) the amount of royalty payable thereon without regard to any credit available pursuant to Sections 2.01(d), 2.01(e) and 2.04(b) and the net amount payable after application of such credit; and
- (iv) all exclusions from royalty pursuant to Section 2.03.

If no LICENSED PRODUCT has been so sold, leased or put into use, the statement shall show that fact.

(b) Within such sixty (60) days ASC shall pay in United States dollars to LUCENT at the address specified in Section 4.03 the royalties payable in accordance with such statement. Any conversion to United States dollars shall be at the prevailing rate for bank cable transfers as quoted for the last day of such semiannual period by leading United States banks in New York City dealing in the foreign exchange market.

(c) Overdue payments hereunder shall be subject to a late payment charge calculated at an annual rate of three percentage points (3%) over the prime rate or successive prime rates (as posted in New York City) during delinquency. If the amount of such charge exceeds the maximum permitted by law, such charge shall be reduced to such maximum. This provision will not apply if the lateness of the payment was due to the negligence of the United States Postal Service, and it can be shown that the payment was sent via the U.S. Mail with a postmark date at least three (3) business days prior to the date that payment was due. Also, a wire transfer that is late due to the negligence of LUCENT's bank (as identified in Section 4.05(b)) shall not be considered late, if without the negligence of LUCENT's bank, the payment would have been timely.

ARTICLE 3

TERMINATION

3.01 BREACH

(a) Licenses and rights granted under this Agreement shall be effective during the term commencing on the effective date hereof and continuing until such licenses and rights are terminated pursuant to the provisions hereof.

(b) If ASC and its SUBSIDIARIES shall fail to fulfill its obligations under Article 2, LUCENT may, upon its election and in addition to any other remedies that it may have, at any time, terminate all of LUCENT's obligations hereunder and all of the licenses and rights granted by LUCENT hereunder by not less than two (2) months written notice to ASC specifying any such breach or failure, unless within the period of such notice all grounds specified therein for termination pursuant to this Section 3.01(b) shall have been cured and remedied. Other material obligations breached, except as to Sections 3.01(d), 3.01(e) and 3.01(f), by either party under this Agreement such that it is in material breach of its obligations set forth herein, are to be remedied through the alternative dispute resolution provisions contained herein, with not less than two (2) months written notice to the breaching Party specifying any such breach or failure, unless within the period of such notice all grounds specified therein for breach pursuant to this Section 3.01(b) shall have been remedied. The occurrence of the events of Sections 3.01(d), 3.01(e) and 3.01(f) are cause for immediate termination in accordance with these Sections where the two (2) month cure and remedy period will be inapplicable.

(c) The obligations of LUCENT and ASC under this Agreement that, by their nature would survive termination of this Agreement, shall survive and continue after any such termination.

(d) If a voluntary or involuntary petition under applicable bankruptcy laws is filed by or against ASC and its SUBSIDIARIES, unless ASC and its SUBSIDIARIES provides to LUCENT reasonable assurances that ASC and its SUBSIDIARIES will be able to comply with the provisions of this Agreement, LUCENT may terminate this Agreement. ASC and its SUBSIDIARIES shall immediately notify LUCENT of the filing of any bankruptcy petition by or against ASC and its SUBSIDIARIES. Notwithstanding the foregoing, a CHANGE IN CONTROL of ASC and its SUBSIDIARIES that results from bankruptcy proceedings shall be treated as provided in Section 3.01(f).

(e) If a proceeding is commenced under any provision of the United States Bankruptcy Code, voluntary or involuntary, by or against either Party, and this Agreement has not been terminated, the non-debtor Party may file a request with the bankruptcy court to have the court set a date within sixty (60) days after the commencement of the case, by which the debtor Party will assume or reject this Agreement, and the debtor Party shall cooperate and take whatever steps are necessary to assume or reject the Agreement by such date.

(f) In the event of a CHANGE IN CONTROL of ASC, or a reasonable expectation of a CHANGE IN CONTROL of ASC, then ASC shall provide notice to LUCENT of such actual or expected CHANGE IN CONTROL event within ten (10) days of any resolution by ASC's Board of Directors approving an actual or anticipated CHANGE IN CONTROL. If ASC purports to transfer this Agreement in connection with any CHANGE IN CONTROL of ASC, LUCENT shall have the right to terminate this Agreement unless such transfer is permitted by the CHANGE IN CONTROL provisions effective as of the effective date of a CHANGE IN CONTROL provided that LUCENT gives ASC written notice of its intention to terminate at least thirty (30) days prior to the termination date specified in the termination notice.

(g) Termination of ASC's and its SUBSIDIARIES rights pursuant to Section 3.01(f) shall not terminate any license to the extent required to enable ASC to fulfill contracts entered into prior to the effective date of termination.

(h) As to dispute as to payments made, if ASC makes a payment or payments to avoid termination under Section 3.01(a) of this Agreement and ASC then subsequently submits the asserted overpayment to dispute resolution in accordance with Section 4.11 and ASC prevails, then in addition to refund of any overpayment(s) made and any other award made by the arbitrator, ASC shall be entitled to interest on its overpayment(s) at the rate specified in Section 2.05(c) of this Agreement.

3.02 VOLUNTARY TERMINATION

By written notice to LUCENT, ASC may voluntarily terminate all or a specified portion of the licenses and rights granted to it hereunder. Such notice shall specify the effective date (not more than six (6) months prior to the giving of said notice) of such termination and shall clearly specify any affected patent, invention or product.

3.03 SURVIVAL

Any termination of licenses and rights of ASC under the provisions of this Article 3 shall not affect ASC's licenses, rights and obligations with respect to any LICENSED PRODUCT made prior to such termination.

ARTICLE 4

MISCELLANEOUS PROVISIONS

4.01 PATENTS LICENSED

LUCENT represents that LUCENT's PATENTS licensed to ASC under this Agreement are the original work of LUCENT or its SUBSIDIARIES (or LUCENT has a valid right to license such property) and it has the power to grant the rights described in this Agreement to the extent that LUCENT can grant such rights and inclusive of the limitations in the definitions herein and Section 1.04.

4.02 DISCLAIMER

EXCEPT AS OTHERWISE PROVIDED HEREIN, NEITHER BTG USA INC., LUCENT NOR ANY SUBSIDIARIES OF BTG USA INC. OR LUCENT MAKE ANY REPRESENTATIONS, EXTEND ANY WARRANTIES OF ANY KIND, ASSUME ANY RESPONSIBILITY OR OBLIGATIONS WHATEVER, OR CONFER ANY RIGHT BY IMPLICATION, ESTOPPEL OR OTHERWISE, OTHER THAN THE LICENSES AND RIGHTS HEREIN EXPRESSLY GRANTED.

4.03 INDEMNIFICATION

(a) ASC agrees to indemnify and save LUCENT and its SUBSIDIARIES and BTG USA, Inc. and its SUBSIDIARIES harmless from any claims or demand for personal injury or property damage (including reasonable expense of litigation and settlement of such claims) by third parties to the extent that such claims arise out of or in connection with the furnishing or use of any of the information and patent licenses provided hereunder.

(b) LUCENT, BTG and ASC shall at all times retain the administrative supervision of their respective personnel during visits to each other's facilities. LUCENT's, BTG's and ASC's personnel shall, while on any location of either LUCENT, BTG or ASC or their SUBSIDIARIES, comply with the other Party's or its SUBSIDIARIES' rules and regulations with regard to safety and security. ASC shall have full control over such personnel while on any location of any of the others or its SUBSIDIARIES and shall be entirely responsible for their complying with the other Party's or its SUBSIDIARIES' rules and regulations. LUCENT, BTG and ASC agree to indemnify and save the other Party and its SUBSIDIARIES harmless from any claims or demands, including the costs, expenses and reasonable attorney's fees incurred on account thereof, that may be made by (i) anyone for injuries to persons or damage to property resulting from acts or omissions of LUCENT's, BTG's and ASC's personnel providing services and products pursuant to this Agreement on the premises of the other Party; or (ii) LUCENT's, and ASC's personnel under Worker's Compensation or similar laws. The Parties, and for this Section 4.03(b) it shall include BTG, hereto

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agree to defend the other Party and its SUBSIDIARIES against any such claim or demand while on any location of the Parties or their SUBSIDIARIES. The indemnifications of this Section 4.03(b) shall be applicable to agents, auditors and contractors of LUCENT, BTG and ASC.

4.04 NONASSIGNABILITY AND CHANGE OF CONTROL OF ASC

(a) LUCENT has entered into this Agreement in contemplation of personal performance by ASC and it is LUCENT's intention that a transfer of ASC's licenses or rights not occur without LUCENT's express written consent, except as provided in Section 4.04(b) or the CHANGE OF CONTROL provision hereto.

(b) Subject to the limitations of the provisions herein, at any time prior to the expiration of the Agreement, ASC may assign all of its licenses and rights under this Agreement for the balance of the term to any successor of ASC's entire business (hereinafter, "ACQUIROR") at the time of such assignment, provided that (i) if such ACQUIROR [**] in a[**], such [**] agrees in writing within sixty (60) days after the assignment to comply with all of the terms and conditions of this Agreement during the balance of the term of the Agreement, or (ii) if such ACQUIROR [**] with [**] or that of any of its SUBSIDIARIES, such ACQUIROR agrees in writing within sixty (60) days after the assignment to comply with all of the terms and conditions of this Agreement as if such successor were ASC.

(c) Any transfer or assignment of ASC's licenses and rights in accordance with Section 4.04(b)(ii) set forth hereinabove shall be applicable for [**] of LICENSED PRODUCTS during the [**] following such transfer or assignment (hereinafter, the "[**] PERIOD") based on the [**] of LICENSED PRODUCTS over the [**] preceding such transfer or assignment (hereinafter, the "PRE-ACQUISITION PERIOD") and thereafter to [**] of LICENSED PRODUCTS beginning in the [**] year and for each subsequent year the agreement is in effect. The [**] of LICENSED PRODUCTS will be determined as follows:

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 EXCHANGE ACT OF 1934, AS AMENDED

- (i) For the first year of the [**] PERIOD the [**] in United States dollars of LICENSED PRODUCTS shall not exceed the [**] for the [**] prior to the assignment or transfer in accordance with 4.04(b)(ii) (hereinafter, the "BASE YEAR" defined as the ASC's last fiscal year prior to acquisition) [**] by the [**] for the PRE-ACQUISITION PERIOD. Each year's sales of LICENSED PRODUCT for the remaining [**] years of the [**] PERIOD shall be limited to a year to year [**] over the previous year's [**] of [**] equal to the [**] of the PRE-ACQUISITION PERIOD; and
- (ii) Beginning in the [**] year and for each year thereafter, the [**] in a [**] of [**] year to year shall be the [**] of the [**] of ASC [**] of [**] during the PRE-ACQUISITION PERIOD or the [**] of the ACQUIROR's [**] of [**] during the [**] PERIOD.

(d) Except as provided for in Section 4.04(b)(i) and (ii), all other transfer or assignment by any means, including but not limited to merger, asset sale, divestiture or stock purchase, shall be subject to the limitation of the CHANGE OF CONTROL provisions.

4.05 ADDRESSES

(a) Any notice or other communication hereunder shall be sufficiently given to ASC when sent by certified mail addressed to Chief Financial Officer, American Superconductor Corporation, Two Technology Drive, Westborough, Massachusetts 01581 (or, if no address is otherwise specified, to ASC's office above specified), or to LUCENT when sent by certified mail addressed to Contract Administrator, Intellectual Property Organization, Lucent Technologies Inc., Suite 105, 14645 N.W. 77th Avenue, Miami Lakes, Florida 33014, United States of America. Changes in such addresses may be specified by written notice.

(b) Payments by ASC shall be made to LUCENT at Sun Trust, P.O. Box 913021, Orlando, Florida, 32891-3021, United States of America. Alternatively, payments to LUCENT may be made by bank wire transfers to LUCENT's account: Lucent Technologies Licensing, Account No. 910-2-568475, Swift Code: CHASUS33, ABA Code: 021000021, at Chase Manhattan Bank, N.A., 55 Water Street, New York, New York 10041, United States of America. Changes in such address or account may be specified by written notice.

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EXCHANGE ACT OF 1934, AS AMENDED

4.06 TAXES

ASC shall pay any tax, duty, levy, customs fee, or similar charge ("taxes"), including interest and penalties thereon, however designated, imposed on ASC as a result of the operation or existence of this Agreement, including taxes which ASC is required to withhold or deduct from payments to LUCENT, except (i) net income taxes imposed upon LUCENT by any governmental entity within the United States (the fifty (50) states and the District of Columbia), and (ii) net taxes imposed upon LUCENT by jurisdictions outside the United States which are allowable as a credit against the United States Federal income tax of LUCENT or any of its SUBSIDIARIES. In order for the exception in (ii) to be effective, ASC must furnish to LUCENT evidence sufficient to satisfy the United States taxing authorities that such taxes have been paid. Such evidence must be furnished to LUCENT within thirty (30) days of issuance by the local taxing authority.

4.07 CHOICE OF LAW

The Parties are familiar with the principles of New York commercial law, and desire and agree that the law of New York shall apply in any dispute arising with respect to this Agreement.

4.08 PATENTS AND PATENT APPLICATIONS

LUCENT shall maintain LUCENT's PATENTS and prosecute the patent applications licensed hereunder in accordance with its standard policies and procedures for patents and applications owned by LUCENT. Within ninety (90) days of [*] LUCENT will provide ASC with a written list of the status of LUCENT's PATENTS in all countries where such patents have issued or have been filed.

4.09 LICENSING

LUCENT will use its best efforts to license LUCENT's PATENTS to other entities to the extent it has the right to do so. Such best efforts would be the normal methods and procedure followed by LUCENT in licensing its Intellectual Property, including patents, to third parties. Best efforts hereunder does not require LUCENT to actually license all or some of LUCENT's PATENTS to a third party, but to follow its course of business practices to license such patents.

4.10 INTEGRATION

This Agreement sets forth the entire agreement and understanding between the Parties as to the subject matter hereof and merges all prior discussions between them. Neither of the Parties shall be bound by any warranties, understandings or representations with respect to such subject matter other than as expressly provided herein or in a writing signed with or subsequent to execution hereof by an authorized representative of the Party to be bound thereby.

4.11 DISPUTE RESOLUTION

(a) If a dispute arises out of or relates to this Agreement, or the breach, termination or validity thereof, the Parties agree to submit the dispute to a sole mediator selected by the Parties or, at any time at the option of a Party, to mediation by the American Arbitration Association ("AAA"). If not thus resolved, it shall be referred to a sole arbitrator selected by the Parties within thirty (30) days of the mediation, or in the absence of such selection, to AAA arbitration which shall be governed by the United States Arbitration Act.

(b) Any award made (i) shall be a bare award limited to a holding for or against a Party and affording such remedy as is deemed equitable, just and within the scope of this Agreement; (ii) shall be without findings as to issues (including but not limited to patent validity and/or infringement) or a statement of the reasoning on which the award rests; (iii) may in appropriate circumstances (other than patent disputes) include injunctive relief; (iv) shall be made within four (4) months of the appointment of the arbitrator; and (v) may be entered in any court.

(c) The requirement for mediation and arbitration shall not be deemed a waiver of any right of termination under this Agreement and the arbitrator is not empowered to act or make any award other than based solely on the rights and obligations of the Parties prior to any such termination.

(d) The arbitrator shall be knowledgeable in the legal and technical aspects of this Agreement and shall determine issues of arbitrability but may not limit, expand or otherwise modify the terms of this Agreement.

(e) This Agreement shall be interpreted in accordance with the laws of the State of New York exclusive of its conflict of laws provisions and the place of mediation and arbitration shall be New York City.

(f) Each Party shall bear its own expenses but those related to the compensation and expenses of the mediator and arbitrator shall be borne equally.

(g) A request by a Party to a court for interim measures shall not be deemed a waiver of the obligation to mediate and arbitrate.

(h) The arbitrator shall not have authority to award punitive or other damages in excess of compensatory damages and each party irrevocably waives any claim thereto.

(i) The Parties, their representatives, other participants and the mediator and arbitrator shall hold the existence, content and result of mediation and arbitration in confidence.

4.12 OUTSIDE OF THE UNITED STATES

(a) There are countries in which the owner of an invention is entitled to compensation, damages or other monetary award for another's unlicensed manufacture, sale, lease, use or importation involving such invention prior to the date of issuance of a patent for such invention but on or after a certain earlier date, hereinafter referred to as the invention's "protection commencement date" (e.g., the date of publication of allowed claims or the date of publication or "laying open" of the filed patent application). In some instances, other conditions precedent must also be fulfilled (e.g., knowledge or actual notification of the filed patent application). The Parties agree that (i) an invention which has a protection commencement date in any such country may be used in such country pursuant to the terms of this Agreement on and after any such date, and (ii) all such conditions precedent are deemed satisfied by this Agreement.

(b) ASC hereby agrees to register or cause to be registered, to the extent required by applicable law, and without expense to LUCENT or any of its SUBSIDIARIES, any agreements wherein sublicenses are granted by it under LUCENT's PATENTS. ASC hereby waives any and all claims or defenses, arising by virtue of the absence of such registration, that might otherwise limit or affect its obligations to LUCENT.

4.13 RELEASES

LUCENT, for itself and for its present SUBSIDIARIES, hereby releases ASC, its present SUBSIDIARIES and all customers (purchasers and users) of products of the kinds herein licensed as of the effective date hereof to ASC, from all claims, demands and rights of action which LUCENT or any of its present SUBSIDIARIES may have on account of any infringement or alleged infringement of LUCENT's PATENTS issued in any country of the world by reason of the manufacture or any past or future use, lease, sale, offer for sale or importation of any of such products which, prior to the effective date hereof, were used or furnished by ASC or any of its present SUBSIDIARIES.

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EXCHANGE ACT OF 1934, AS AMENDED

4.14 Good Faith Negotiations and Option

(a) LUCENT at its sole discretion can enter into good faith negotiations with ASC if at some time subsequent LUCENT decides or considers to sell or convey the patents licensed hereunder to a third party for the sale or conveyance of said patents to ASC. LUCENT can discontinue any such negotiations with ASC in its sole discretion at any time.

(b) ASC at its sole discretion can enter into good faith negotiations with LUCENT if at some time subsequent to the execution of this Agreement ASC wishes to obtain a license for systems containing SUPERCONDUCTIVE WIRE PRODUCTS used in [**] systems. ASC shall be entitled to obtain such a license on financial terms to be negotiated at the time of the request where such financial terms are similar to then THIRD PARTY LICENSEES financial terms and conditions, but all other terms and conditions will be the same as this Agreement. If LUCENT has no THIRD PARTY LICENSEE at the time that ASC wishes to obtain a license, ASC can obtain a license at the royalty rate herein at as well as the same terms and conditions.

IN WITNESS WHEREOF, each of the Parties has caused this Agreement to be executed in duplicate originals by its duly authorized representatives on the respective dates entered below.

LUCENT TECHNOLOGIES INC.

By: /s/ M.R. Greene

M.R. Greene
Acting President - Intellectual Property
Division

Date: May 8, 1998

AMERICAN SUPERCONDUCTOR
CORPORATION

By: /s/ Gregory J. Yurek

Gregory J. Yurek
President and Chief Executive Officer

Date: May 8, 1998

THIS AGREEMENT DOES NOT BIND OR OBLIGATE EITHER PARTY
IN ANY MANNER UNLESS DULY EXECUTED BY AUTHORIZED
REPRESENTATIVES OF BOTH PARTIES

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EXCHANGE ACT OF 1934, AS AMENDED

DEFINITIONS APPENDIX

ACQUIROR shall mean one person or entity, or two or more persons and/or entities constituting a "group" for purposes of the Securities Exchange Act of 1934, as amended. For determining the COMPETITOR trigger below, the entire entity including all subsidiaries and related companies shall be treated as a single entity for the purpose of determining the revenue and business of the company and the trigger point for the CHANGE OF CONTROL options. For example if the entity owns more than fifty percent (50%) of a SUBSIDIARY its revenue and businesses will be counted; as well as if the entity controls another entity with less than majority interest through direct or indirect Control (as herein defined) over a Party that entity's revenue will be counted as part of ACQUIROR's revenue. For the purposes of this subsection, the term "Control" shall mean the possession directly or indirectly of the power to direct or cause the direction of the management or policies of a Party, whether through the ability to exercise voting power, by contract or otherwise due to local law, then that controlled entity's sales will be included in total revenue and businesses for the entity.

CHANGE OF CONTROL occurs, except as to a transfer or an assignment permitted by Section 4.04(b), in connection with the acquisition by an ACQUIROR of ASC's entire business or a part to which the licenses and rights under this Agreement relate upon any one of the following circumstances or events and the license herein can or cannot be transferred depending on the following:

- (a) If the ACQUIROR is a [**] at the time of the acquisition of all or part of ASC, there can be no transfer or assignment of this Agreement without the written consent of LUCENT;
- (b) If the ACQUIROR is in an [**] with LUCENT at the time of the acquisition of all or part of ASC, there can be no transfer or assignment of this Agreement without the written consent of LUCENT; or
- (c) If neither (a) nor (b) apply to the ACQUIROR at the time of the acquisition of all or part of ASC, there can be no transfer or assignment of this Agreement without the written consent of LUCENT unless, within [**] days of the effective date of the CHANGE OF CONTROL, the [**] of [**] U.S.) to LUCENT and notifies LUCENT in writing of the

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 EXCHANGE ACT OF 1934, AS AMENDED

ACQUIROR's agreement that, effective as of the effective date of the CHANGE OF CONTROL, the royalty rate provided by Section 2.01(b) shall be [**] and the royalty rate provided by Section 2.01(e) shall be [**].

A CHANGE OF CONTROL does not occur if an assignment or transfer is permitted by Section 4.04, or if neither (a) nor (b) above apply to the ACQUIROR and the ACQUIROR [**] as provided in (c) above, or if the [**] of ASC and ASC does not attempt to [**] under this Agreement in connection with the acquisition. In the event of a CHANGE OF CONTROL of ASC, LUCENT's alternatives to written consent include, but are not limited to termination of this Agreement in accordance with Section 3.01(f).

COMPETITOR means an ACQUIROR providing service and/or products in microelectronics (including but not limited to integrated circuits and optoelectronics), business communications systems (including but not limited to messaging, voice/data and call center systems), optical networking (including but not limited to optical line Systems), switching and access systems (including but not limited to switching systems and access systems), wireless networks (including but not limited to infrastructure for wireless that adhere to global standards), network products (including but not limited to fiber products and power systems for communications products), and all natural improvements and extensions therefrom, ACQUIROR's that have sales of the above products that are incidental and unrelated to their main businesses, less than one percent of revenue, shall not be deemed a COMPETITOR.

FAIR MARKET VALUE means, with respect to any SUPERCONDUCTIVE WIRE PRODUCT sold, leased or put into use, the amount of (i) the selling price actually obtained for such a product or system in the form in which it is sold, whether or not assembled (and without excluding therefrom any components or subassemblies thereof which are included in such selling price) for a bona fide sale to a third party, but in no case will the value be less than ASC's break-even point for SUPERCONDUCTIVE WIRE PRODUCT alone; or (ii) the value of SUPERCONDUCTIVE WIRE PRODUCT as a [**] of the [**] or the [**] shall be based on the [**] that ASC receives from an unaffiliated buyer in a bona fide arm's length transaction for an [**] of [**] but in no case less than ASC's break-even point.

In determining "selling price" the following shall be excluded:

- (a) usual trade discounts actually allowed to unaffiliated persons or entities;
- (b) packing costs;

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 EXCHANGE ACT OF 1934, AS AMENDED

- (c) costs of insurance and transportation; and
 (d) import, export, excise, sales and value added taxes, and
 customs duties.

For the purposes of the determination of Fair Market Value for triggering royalty payment under Article 2 herein; from [**] through [**] no more than [**] of revenue for the LICENSED PRODUCTS that consist of SUPERCONDUCTIVE WIRE PRODUCTS or contain SUPERCONDUCTIVE WIRE PRODUCTS can be excluded from royalty payments if they are found to be PROTOTYPES. After [**] no more than [**] of revenue for the LICENSED PRODUCTS can be excluded from royalty payments if they are found to be PROTOTYPES.

LUCENT'S PATENTS means:

Japanese Patent No. 1921521

Japanese Patent No. 2079035

Japanese Application No.[**] and any patent issuing thereon

European Patent No. 0305515

The United States Letters Patents and Patent Applications listed below and any Foreign Counterparts and U.S. Counterparts thereof, together with any divisions, continuations, continuations-in-part, renewals, reissues, and reexaminations. For purposes of this Appendix A, "Foreign and U.S. Counterparts" shall mean those foreign patents and patent applications which claim priority based on: (i) the below specified U.S. patents and patent applications, (ii) an application from which the below specified U.S. patents issued or from which such an application in turn claims priority, (iii) an application from which a below specified patent application claims priority, or (iv) from which a below specified U.S. patent or patent application claim priority.

U.S. Patent Application No.[**] ([**] in [**]) and any patents which may issue thereon.

U.S. Patent Application No.[**] ([**] in [**]) and any patents which may issue thereon.

U.S. 4,145,699	U.S. 4,880,771	U.S. 5,100,870
U.S. 4,242,419	U.S. 4,914,081	U.S. 5,106,826
U.S. 4,249,094	U.S. 4,933,317	U.S. 5,132,280

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 EXCHANGE ACT OF 1934, AS AMENDED

U.S. 4,264,916	U.S. 4,943,557	U.S. 5,157,017
U.S. 4,318,741	U.S. 4,952,554	U.S. 5,187,149
U.S. 4,325,144	U.S. 4,966,885	U.S. 5,196,400
U.S. 4,342,924	U.S. 4,992,623	U.S. 5,210,071
U.S. 4,358,783	U.S. 4,996,189	U.S. 5,244,868
U.S. 4,370,568	U.S. 5,006,504	U.S. 5,272,132
U.S. 4,373,138	U.S. 5,011,823	U.S. 5,340,796
U.S. 4,391,657	U.S. 5,039,653	U.S. 5,364,836
U.S. 4,488,164	U.S. 5,053,383	U.S. 5,389,603
U.S. 4,610,032	U.S. 5,057,877	U.S. 5,391,323
U.S. 4,754,384	U.S. 5,081,075	U.S. 5,413,755
U.S. 4,797,386		U.S. 5,416,063
U.S. 4,837,609		U.S. 5,470,530

LICENSED PRODUCTS mean, as to grantee, any product (including specified combinations) listed for such grantee in Section 1.01.

LICENSEE OF LUCENT means raw material suppliers licensed under LUCENT's PATENTS.

PROTOTYPES means those products that would normally be counted as LICENSED PRODUCTS, but they are sold at prices less than [**] of ASC's costs for the purpose of product development.

SUBSIDIARY of a company means a corporation or other legal entity (i) the majority of whose shares or other securities entitled to vote for election of directors (or other managing authority) is now or hereafter controlled by such company either directly or indirectly; or (ii) which does not have outstanding shares or securities but the majority of whose ownership interest representing the right to manage such corporation or other legal entity is now or hereafter owned and controlled by such company either directly or indirectly; but any such corporation or other legal entity shall be deemed to be a SUBSIDIARY of such company only as long as such control or ownership and control exists.

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SUPERCONDUCTIVE WIRE PRODUCT means wire, tape or other long length conductor exhibiting superconductivity formed from superconductive material, including Yttrium Barium Copper Oxide (YBCO) and Bismuth Strontium Calcium Copper Oxide (BSCCO), but specifically excluding thin film electronic products suitable for electronics and data processing applications and whose manufacture, importation, sale, lease or use of which by ASC or any of its SUBSIDIARIES would but for the licenses or rights under this Agreement, constitute (i) infringement of LUCENT's PATENTS by ASC, or such SUBSIDIARY.

SUPERCONDUCTIVE WIRE WITHIN A SYSTEM means the quantity of SUPERCONDUCTIVE WIRE PRODUCT in a system such as a transformer, motor, generator, SMES, or fault current limiter. Such quantity of SUPERCONDUCTIVE WIRE PRODUCT will be subject to royalty based on the [%] of the [%] and not the [%].

SYSTEMS PRODUCT INCLUDING SUPERCONDUCTIVE WIRE PRODUCT means systems, subassemblies and components including coils and current leads incorporating SUPERCONDUCTIVE WIRE PRODUCT but excluding systems and subassemblies designed for [%] Communications and data processing applications. Such a SYSTEMS PRODUCT INCLUDING SUPERCONDUCTIVE WIRE PRODUCT will be subject to a royalty based on the FAIR MARKET VALUE of the [%] and not the value of [%].

THIRD PARTY LICENSEE(S) means an entity licensed by LUCENT in whole or in part under LUCENT's PATENTS for [%] and [%] systems.

[%] means [%] between application assigned to [%] with LUCENT's application involved in the [%] being [%] having [%].

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STRATEGIC DEVELOPMENT
AGREEMENT
BETWEEN
ELECTRICITE DE FRANCE
AND
AMERICAN SUPERCONDUCTOR CORPORATION

This Agreement, dated as of April 1, 1997, is entered into by and among

ELECTRICITE DE FRANCE ("EDF")
a French Corporation with head offices at
2, rue Louis Murat, 75008 PARIS/FRANCE
herein represented by Francois Boulot, Vice President of
R&D Division located at 1, avenue du General de Gaulle,
92141 CLAMART Cedex/FRANCE

and

AMERICAN SUPERCONDUCTOR CORPORATION, a Delaware corporation ("ASC"), with
offices at Two Technology Drive, Westborough, MA 01581.

WHEREAS, ASC is engaged in the research, development, commercialization,
production and marketing of superconductor products for the electric power
industry;

WHEREAS, EDF is an electric utility that seeks to provide the best possible
service to its customers at the lowest possible cost and to enhance its
competitive position;

WHEREAS, EDF believes that high temperature superconductivity is and will
be one of the most significant technological developments affecting the
electricity industry;

WHEREAS, EDF believes that ASC is and will be a leader in the development
and commercialization of high temperature superconductor products;

WHEREAS, ASC has a development program for alternating current ("AC") and
high resistivity sheathing ("HRS") high temperature superconductor ("HTS")
conductors and is in discussions with ABB Power T&D Company, Inc. ("ABB")
whereby ABB will be offsetting some of ASC's development costs for AC and HRS
HTS conductor development period. This total program amounts to 15 MUS\$. The
present Agreement deals with EDF contribution to this program and amounts to 5
MUS\$. The words ((conductors)) and ((wires)) are used interchangeably.

WHEREAS, EDF wants to maximise the benefit from this program with the
shortest delay, by actively participating in the developments, through technical
and financial support for AC and HRS HTS superconductors

It is understood that EDF and ABB shall have a separate agreement wherein
EDF will be working with ABB to develop and install HTS transformers
manufactured by ABB using the AC and HRS HTS conductors developed by ASC under
this Agreement and the ASC/ABB agreement; and

NOW, THEREFORE, in consideration of the mutual promises and covenants
contained in this Agreement, the parties hereto agree as follows:

ARTICLE 1: PERFORMANCE OF THE WORK

1.1 WORK. ASC shall use its best efforts, within commercially reasonable limits, to perform the work (the "Work") as set forth in the Statement of Work in Attachment A, in the schedule (the ((Schedule))) attached hereto. The ((schedule)) defines the Work (detailed in Attachment A), the period of performance, the Budget (detailed in Attachment B as defined in Subarticle 2.3).

1.2 PERIOD OF PERFORMANCE. This Agreement when signed will be effective April 1st, 1997. Its total duration is 48 months from that date. ASC shall use its best efforts, within commercially reasonable limits, to complete the Work, within the time period(s) set forth in the Schedule (the "Period of Performance") and within the Budget.

1.3 FORCE MAJEURE. Force Majeure conditions of the Chambre de Commerce Internationale in Geneva, as defined in Attachment C, apply for this Agreement.

1.4 ORGANISATION. Two committees follow the performance of the Work.

A Steering Committee is formed in order to approve project reports, decide on changes, corrections and interpretations in the project targets (technically, financially, timing), approve publications and/or information to third parties. Representatives on the Steering Committee are:

-ASC	A.P. Malozemoff
-EDF	P.G. Therond

A Technical Committee is formed in order to follow the progress of the Work, as defined in Attachment A, and propose changes, corrections in the project target if necessary, propose publications or information to third parties. Representatives on the Technical Committee are:

-ASC	G. Riley Jr
-EDF	C. Levillain

The representatives are appointed by ASC and EDF respectively and may be changed during the course of the Agreement.

ARTICLE 2: COSTS

2.1 COST REIMBURSEMENT. EDF shall reimburse ASC for all costs incurred in the performance of the Work, subject to the limitations contained below in this Article 2, and Article 3 of this Agreement. In case of termination as defined in Article 11, payments already given by EDF shall be kept by ASC. Payment for the last quarter

corresponding to the termination shall be calculated using the ratio between the duration already over compared to the total duration of the quarter.

2.2 BEST EFFORTS. ASC agrees to use its best efforts, within commercially reasonable limits, to perform the Work within the "Budget" as set forth in Article 2, Subarticle 2.3.

2.3 BUDGET. EDF's payments of funds for each contract year are set forth in the Schedule of Development Cost (Attachment B). The Budget, which amounts to a total of 5MUS\$ represents the maximum amount of EDF funds that ASC is authorized to expend or commit for the Work. This budget includes any US taxes that may be applicable. Attachment B shows the yearly budget that ASC is authorized to expend and commit for the work as of the last day of the applicable contract year. ASC may carry forward any unexpended committed funds into succeeding contract years.

2.4 ACCOUNTING PROCEDURES. ASC's costs shall be determined on the basis of ASC's accounting system, procedures and practices employed as of the effective date and during the performance of this Agreement; provided that ASC shall use generally accepted accounting principles and cost reimbursement practices.

2.5 AUDIT RIGHTS. ASC shall maintain books, records, documents, and other evidence, in sufficient detail to reflect properly all costs incurred in performing this Agreement. The audit of corporate allocations will be limited to the supporting documentation at the division(s) performing the Work. A certified public accounting firm designated by EDF, from a list of such firms as proposed by ASC, may audit such accounting records at all reasonable times with prior notice by EDF. EDF shall bear the expense of such audits. It is the intent of the parties that such audits shall ordinarily be performed not more frequently than once every twelve (12) months during the performance of the Work. The certified public accounting firm conducting the audit will certify the accuracy of ASC's costs, calculations and appropriateness of the allocation methodology.

ARTICLE 3: PAYMENTS

Subject to the provisions of Article 2, EDF shall pay ASC the total amount of each invoice received by EDF, after receipt by EDF of the quarterly report of the preceding quarter. The period of time covered, including the beginning and ending dates, must be specified on each invoice. Invoices shall be submitted in advance on a quarterly basis as set forth in the Schedule of Development Costs, defined in Attachment B.

Requests for payment with accompanying invoices shall refer to the EDF research project number (M12 / 1K8715 / EL 751, M12 L 09) and shall be submitted in duplicate by ASC to the attention of "Bureau de Gestion des Approvisionnements":

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EDF, Direction des Etudes et Recherches
1, avenue du General de Gaulle
F-92141 CLAMART CEDEX
FRANCE

The payments shall be made within 45 days after receipt of invoice, without
agios.

ARTICLE 4: PAY-BACK

4.1 TECHNICAL PROGRESS REPORTS. ASC shall submit quarterly technical
progress reports to EDF, for the attention of EDF representative in the
technical Committee. Such reports shall be in sufficient detail to disclose Work
accomplished and results achieved during the reporting period. The content of
the reports is detailed in Attachment A. In addition, such reports shall include
a summary in non-technical language which briefly describes the Work and sets
forth the important results and contents of the report. ASC informs EDF in such
reports about the Work performed for the development of AC and HRS HTS
conductors.

4.2 REPORT DISTRIBUTION. All technical reports of any nature developed and
furnished under this Agreement are intended solely for the purpose of
communicating and transferring information relating to research and are subject
to Article 7.

4.3 ROYALTIES. For [**] from [**] of HTS commercial conductors by ASC for
transformers, ASC will pay to EDF a royalty of [**] on [**] HTS [**] sales. For
the purpose of this royalty calculation, sales for the [**] as described under
Article 4.4 will be excluded. For the purpose of this royalty calculation, [**]
will be excluded the first [**] and included after [**] and until [**] from the
[**] of HTS [**] by ASC for transformers.

4.4 COMMERCIAL DISCOUNTS. In recognition of EDF's contribution to the
development of HTS conductors for transformers, ASC undertakes to sell any AC
and HRS HTS conductor developed by ASC under this Agreement, which is to be used
in HTS transformers designated for and sold in the [**] to the manufacturers of
these transformers at pricing not to exceed to the one proposed to ABB under
ASC's agreement with ABB on development of AC and HRS HTS wires. The current
price discount to ABB amounts to a [**] price discount from the lowest
commercial price available from ASC for similar quantities for any AC and HRS
HTS conductors developed by ASC under this Agreement, or any HTS conductor
originating from the Work and this discount shall not be taken into
consideration in determining the lowest

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commercial price. When a HTS transformer is commissioned for use in the [**], EDF will notify ASC. It is agreed that ASC shall have no right to influence any negotiation between EDF and any transformer manufacturer.

The definition of a commercial conductor sale under this Agreement is sale of HRS or AC wire which is applicable to a High Temperature Superconducting Transformer which is either the [**] in the [**] of [**] HTS transformers, or the [**] in the [**] of [**] HTS transformers, whichever is sold HRS. The above-mentioned discount will apply during [**] from the [**] of HTS commercial conductors for HTS transformers by one of these designated manufacturers.

ARTICLE 5: DATA, RECORDS AND REPORTS

ASC agrees to maintain the records in sufficient detail to properly reflect all Work done and results achieved in the performance thereof. Ownership of all records and other data produced, generated or procured under this Agreement, including under any subcontracts, shall be as provided in Subarticle 6.1.

ARTICLE 6: INTELLECTUAL PROPERTY RIGHTS

6.1 OWNERSHIP. ASC shall own exclusively all right, title, and interest in and to all discoveries, inventions, data and documentation conceived or first reduced to practice by ASC in the course of the Work (the "Technology") and to any patents or patent applications, copyrights or other intellectual property rights based on the technology.

In the event of a jointly-made invention, such joint invention shall be jointly owned by EDF and ASC and, if ABB has contributed to the invention, by ABB. The parties shall mutually determine whether or not application(s) for patents shall be filed, the party which will prepare, file and manage such application and the country or countries in which the same are to be filed. For jointly-made invention, it is the intention of EDF and ASC that ASC will be the primary means for developing and commercializing such conductor developed in the framework of this Agreement.

6.2 LICENSE. In case ASC will not continue to perform the Work defined in the present Agreement because ASC terminates the Agreement for convenience in accordance with Article 11.1 and in case EDF is interested to continue on its own, ASC shall license for HTS transformer application only on a world-wide basis such patents, copyrights or other intellectual property rights based on the technology developed in the

context of the Work detailed in the present Agreement to a third party. ASC has to make sure in licensing conditions that payback items described in Articles 4.3 and 4.4 are transferred to the licensee.

ARTICLE 7: CONFIDENTIALITY

7.1 EDF INFORMATION.

(a) ASC acknowledges that during the term of this Agreement it may be exposed to certain information which is confidential or proprietary to EDF ("EDF CONFIDENTIAL INFORMATION"). All EDF Confidential Information shall be marked by EDF as "EDF CONFIDENTIAL". ASC shall protect and maintain such EDF CONFIDENTIAL INFORMATION in the same manner and to the same degree it protects its own confidential information.

(b) ASC agrees that during the term of this Agreement and for a period of ten (10) years unless both parties agree to extend the period beyond ten (10) years, ASC and its affiliates will not use any EDF CONFIDENTIAL INFORMATION except in accordance with the provisions and for the purposes of this Agreement, and will not disclose any EDF CONFIDENTIAL INFORMATION to any third party without the prior written consent of EDF.

7.2 ASC INFORMATION.

(a) The parties contemplate that in the performance of the Work ASC furnishes information to EDF that is confidential or proprietary to ASC or has been provided to ASC by a third party on a confidential basis ("ASC CONFIDENTIAL INFORMATION"). This includes information concerning the Work or the Technology, or information developed by ASC apart from this Agreement which is generally related to the subject of this Agreement. ASC shall clearly mark it as "ASC CONFIDENTIAL INFORMATION". EDF shall protect and maintain such ASC CONFIDENTIAL INFORMATION in the same manner and to the same degree it protects its own confidential information.

(b) EDF agrees that during the term of this Agreement and for a period of ten (10) years thereafter unless both parties agree to extend the period beyond ten (10) years, EDF or EDF Affiliates will not use any ASC CONFIDENTIAL INFORMATION except in accordance with the provisions, for EDF or affiliates internal needs and for the purpose of this Agreement, and will not disclose any such ASC CONFIDENTIAL INFORMATION to any third party without the prior written consent of ASC.

7.3 JOINT INVENTIONS. Reports concerning joint inventions, when marked confidential, will be treated as such by both parties except that they may be shared with ABB and ABB Affiliates in accordance with the agreements between ABB and ASC or EDF and ABB.

7.4 THIRD PARTIES. If one Party needs for the achievement of the Work defined in the Agreement to subcontract or involve any third Party, that Party shall also deal with confidentiality issues with this third Party, as defined in this Article 7.

7.5 EXCEPTIONS. The provisions of this Article 7 shall not apply to either party's CONFIDENTIAL INFORMATION to the extent that:

(a) such information was generally known or otherwise in the public domain prior to disclosure hereunder, or becomes so known subsequent to such disclosure through no fault of the receiving party; or

(b) such information is received by the receiving party after the Effective Date of this Agreement without restriction from a third party not under an obligation to the disclosing party not to disclose it and otherwise not in violation of the disclosing party's rights; or

(c) such information is furnished to third parties by the disclosing party without a similar restriction on the third party's rights, or

(d) such information is already in the possession of the receiving party, as shown by written records, without violation of this Agreement.

(e) such information has been independently developed by the receiving party without reference to or reference on the other party's Confidential Information.

7.6 COURT ORDER. In the event either party's Confidential Information is subpoenaed or otherwise required to be produced or made available by the other party to a third party by order of a court or governmental administrative agency, the party required to produce such information shall promptly notify the other party in writing and allow ten (10) days or, if less, the maximum amount of time possible under the circumstances, for response by the disclosing party before producing such documents. The receiving party will cooperate with the disclosing party in obtaining a protective court order or take such other action as may be appropriate under the circumstances.

7.7 SURVIVORSHIP. The provisions of this Article 7 shall survive any termination of this Agreement for 5 years.

ARTICLE 8: REPRESENTATIONS, WARRANTIES AND COVENANTS

8.1 BINDING OBLIGATION. This Agreement is the valid and legally binding obligation of each party in accordance with its terms, subject to bankruptcy, reorganization, insolvency, moratorium and similar laws and to general principles of equity which are within the discretion of courts of applicable jurisdiction.

8.2 NO LITIGATION OF CLAIMS. ASC represents and warrants to EDF that to the best of ASC's knowledge at the time of execution of this Agreement, there is no pending litigation or knowledge of a claim made by any third party which may substantially affect ASC's ability to fulfill its obligations pursuant to this Agreement.

8.3 AGREEMENTS WITH EMPLOYEES. Except as otherwise prevented by law, both parties will maintain with their respective employees, agents, subcontractors and consultants who perform under this Agreement and who have access to the Technology, written agreements sufficient to enable each party to perform its obligations hereunder.

8.4 COMPLIANCE WITH LAWS. Each party will comply with all laws and regulations applicable to the performance of its obligations hereunder, including, without limitation, all safety, health and environmental laws, and will obtain all necessary government authorizations, approvals and permits required to perform the Work.

8.5 NO INFRINGEMENT. ASC shall perform the Work in a manner so that to the best of ASC's knowledge, neither the Technology being developed, the deliverables being supplied to EDF, nor the exercise by EDF of any of the rights granted hereunder infringes any intellectual property right of any third party; provided, however, the foregoing covenant shall not apply to patent rights, and to copyrights unless ASC knowingly infringes such copyrights.

ARTICLE 9: PUBLICITY RELEASES

PRIOR APPROVAL. Unless required by law or stock market regulations neither party may issue any publicity releases (including news releases and advertising) relating to this Agreement and the Work performed hereunder without the prior written approval of the other party. EDF and ASC will coordinate their responses to any substantial inquiry from news media concerning this Agreement.

ARTICLE 10: INDEMNIFICATION AND LIMITATION OF LIABILITY

10.1 INDEMNITY. Each party (party A) shall protect, defend, indemnify and hold harmless the other party (party B), its agents, employees and directors from any claim, loss, cost, liability or expense (including court costs and reasonable fees of attorneys and other professionals) arising out of or resulting from any breach by party A of the representations, warranties and covenants made in Article 8.

10.2 GENERAL INDEMNITY. Notwithstanding Subarticle 10.1 herein each party (party A) shall protect, defend, indemnify and hold harmless the other party (party B), its agents, employees and directors from any claim, loss, cost, liability or expense (including court costs and reasonable fees of attorneys) arising out of any injury, including death, or any property damage suffered by any third party associated with Party B as a result of or related to any negligent act or negligent failure to act of party A's, its subcontractors, its subsidiaries or any third parties which have been involved by party A for the achievement of the Work, or of any of their respective employees, agents and directors in connection with or related to the Work or the performance of this Agreement except to the extent that any losses, costs, liabilities, claims or expenses are the result of any negligent act or negligent failure to act of the party B, its agents, employees and directors.

10.3 CONDITIONS AND OBLIGATIONS. Party A's obligations under Subarticle 10.1 and 10.2 above are conditioned upon (i) party B giving notice, which is timely under the particular circumstances, to party A's representative (specifically named in Article 12 herein), of any claim made against the party B or any claim made by the party B hereunder, provided, however, notice shall be considered timely unless party A has suffered substantive or irreparable prejudice as a result of a delay by party B in giving notice to party A in (a) the defense of such claim or (b) party A giving notice to an applicable insurer of such claim and (ii) party B giving party A the right to control and direct any investigation, defense and settlement of such claims, provided, however, party A shall not settle, compromise or resolve such claim (except if such settlement, compromise or resolution consists only of a payment of money to be made by ASC) without the prior written approval of the party B (which approval shall not be unreasonably withheld). Party B shall provide full and timely cooperation to party A in the defense or settlement of such claims.

10.4 LIMITATION OF LIABILITY.

(i) IN NO EVENT WILL EITHER PARTY BE LIABLE TO THE OTHER FOR ANY SPECIAL, INDIRECT, CONSEQUENTIAL OR INCIDENTAL DAMAGES, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY, ARISING OUT OF THIS AGREEMENT, EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

(ii) THE TOTAL CUMULATIVE LIABILITY OF ASC TO EDF, ARISING FROM INTELLECTUAL PROPERTY INFRINGEMENT OR IN ANY WAY CONNECTED TO THE PERFORMANCE OR NONPERFORMANCE OF THIS AGREEMENT, WHETHER IN INTELLECTUAL PROPERTY INFRINGEMENT, CONTRACT, TORT (INCLUDING NEGLIGENCE OR STRICT LIABILITY) OR OTHERWISE FOR DAMAGE OR LOSS OF OTHER PROPERTY OR EQUIPMENT, LOSS OF PROFITS OR REVENUE, LOSS OF USE OF EQUIPMENT OR POWER SYSTEM, COST OF CAPITAL, COST OF PURCHASED OR REPLACEMENT POWER OR TEMPORARY EQUIPMENT

(INCLUDING ADDITIONAL EXPENSES INCURRED IN USING EXISTING FACILITIES), CLAIMS OF CUSTOMERS OF EDF, SHALL NOT EXCEED THE FUNDING RECEIVED BY ASC FROM EDF.

ARTICLE 11: TERMINATION

11.1 TERMINATION. This Agreement may be terminated, without cause and for its convenience, by any party at any time upon ninety (90) days written notice to the other party.

11.2 SURVIVAL. The provisions of Subarticle 2.5 (Audit Rights), Article 5 (Data), Article 6 (Intellectual Property Rights), Article 8 (Representations, Warranties and Covenants), Article 10 (Indemnification and Limitation of Liability), Article 13 (Dispute Resolution) and Article 14 (Miscellaneous) shall survive completion or termination of this Agreement for any reason. The provision of Article 7 (Confidentiality) shall survive completion or termination of this Agreement during ten (10) years.

ARTICLE 12: NOTICES

Any notices or communications required or permitted under this Agreement shall be in writing and personally delivered or sent to the address of each party as set forth below, or to such other address as either party may substitute by written notice to the other in any manner expressly provided for herein.

- (a) Notices to EDF under this Agreement:
Direction des Etudes et Recherches
Attn.: Chef du Service Materiels Electriques
1, avenue du General de Gaulle
F-92141 CLAMART Cedex
FRANCE

- (b) Notices to ASC under this Agreement:
American Superconductor Corporation
Attn.: President
Two Technology Drive
Westborough, MA 01581

ARTICLE 13: DISPUTE RESOLUTION

13.1 MEDIATION AND ARBITRATION. If a dispute arises out of or relates to this Agreement, or any breach thereof, and if such dispute cannot be settled through direct negotiation between the parties, and if the parties mutually agree, the parties shall submit the dispute to mediation with a mediator at the Chambre de Commerce

Internationale of Geneva. The mediation may be initiated by the written request of either party and sent to the other party and shall commence within fifteen (15) days of receipt of such notice, unless otherwise agreed by the parties. These disputes arising in connection with the present Agreement shall be finally settled under the Rules of Conciliation and Arbitration of the International Chamber of Commerce. If the procedure of conciliation fails, the dispute is settled through arbitration according international trade customs and practices, by one or more arbitrators appointed in accordance with the said Rules. The language of the mediation shall be English.

13.2 Each party shall bear its own expense of such mediation proceedings, unless otherwise agreed by the parties.

ARTICLE 14: MISCELLANEOUS

14.1 ASSIGNMENT. Except to accomplish the sale or transfer of a business unit or division, or reorganization of either party, this Agreement may not be assigned, in whole or in part, by either party without the prior written consent of the other party which consent shall not be unreasonably withheld. If this Agreement is assigned for any reason by either party, terms and conditions of this Agreement will continue.

14.2 BENEFIT. Subject to Subarticle 14.1 above, this Agreement is binding upon and shall inure to the benefit of the parties hereto, their representatives, successors and permitted assigns.

14.3 WAIVER. No failure or successive failures on the part of either party, its successors or assigns, to enforce any covenant or agreement, and no waiver or successive waivers on its or their part of any condition of this Agreement shall operate as a discharge of such covenant, agreement, or condition, or render the same invalid, or impair the right of either party, its successors and assigns, to enforce the same in the event of any subsequent breach or breaches by the other party hereto, its successors or assigns.

14.4 ENTIRE AGREEMENT. This Agreement constitutes the entire Agreement between the parties and supersedes all previous agreements and understandings relating to the Work, including any letter agreement between the parties. This Agreement may not be altered, amended, or modified except by a written instrument signed by the duly authorized representatives of both parties.

14.5 WARRANTY DISCLAIMER. WITHOUT LIMITING ASC'S OBLIGATIONS PURSUANT TO ARTICLE(S) 8 AND 11 HEREIN, IN RECOGNITION THAT THE NATURE OF THE WORK INVOLVES RESEARCH AND DEVELOPMENT, ASC MAKES NO WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, EXCEPT ARTICLE 4, REGARDING THE WORK.

14.6 SEVERABILITY. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof. Any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

14.7 FURTHER ASSURANCES. If, at any time, either party has reasonable grounds to believe that the other party may be unable to perform its obligations hereunder, the first party may in writing demand adequate assurance of due performance, and until it receives such assurance to its satisfaction, it may suspend performance of its obligations hereunder.

14.8 EXPORT REGULATIONS. All technical data or commodities of United States origin made available directly or indirectly hereunder for use outside the United States shall be used subject to and in accordance with any applicable laws and regulations of the departments and agencies of the United States Government. The recipient of such technical data or commodities agrees not to re-export, directly or indirectly, any technical data of United States origin acquired from the Disclosing Party or any commodities using such data to any destination requiring United States Government approval for such reexport until a request for approval has been submitted to and granted by the United States Government.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized representatives.

Electricite de France
By: /s/ Boulet Francais

American Superconductor Corporation
By: /s/ G.J. Yurek

Print Name: Boulet Francais

Print Name: G.J. Yurek

Title: Director

Title: President

Date: January 2nd 1998

Date: January 2, 1998

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SCHEDULE TO THE DEVELOPMENT AGREEMENT
BETWEEN
EDF AND ASC

1.0 STATEMENT OF WORK

1.1 The Statement of Work is attached hereto as Attachment A, which is hereby deemed incorporated and made an integral part of this Agreement.

2.0 PERIOD OF PERFORMANCE

Alliance Agreement will be for a four year period, covering April 1, 1997 through March 31, 2001.

3.0 BUDGET

The budget is set forth in this Article 3 and in Attachment B to this Schedule.

3.1 EDF will pay ASC for the development outlined in this Agreement as per Attachment B.

4.0 DELIVERABLES

4.1 TECHNICAL PROGRESS REPORTS

ASC shall submit to the EDF with respect to the Work a technical progress report on a quarterly basis.

4.3 PROTOTYPE CONDUCTORS MILESTONES

The milestones may be [**] in preliminary design review for the [**] and [**] transformers. All values listed are minimum performance requirements with [**], and [**]. AC loss values are determined by [**] unless otherwise specified.

4.3.1 [**] GENERATION [**]: feasibility demonstrated in [**] with the following combined characteristics:

1. [**] at [**] and in [**] to plane.
2. [**] at [**] and in [**] to plane.

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3. [**] and operating [**] total current [**] consistent with the above [**] specifications.
- 4.3.2 [**] GENERATION [**]: feasibility demonstrated in [**] with the following combined characteristics:
1. [**] at [**] and in [**] to plane.
 2. [**] at [**] and in [**] to plane.
 3. [**] and operating [**] total current [**] consistent with the above [**] specification.
- 4.3.3 [**] GENERATION [**]: [**] process demonstrated with characteristics of 4.3.2.
- 4.3.4 [**] GENERATION [**]: feasibility demonstrated in [**] with the following combined characteristics:
1. [**] at [**] and in [**] to plane determined by a [**] measurement.
 2. [**] at [**] and in [**] to plane determined by a [**] measurement.
 3. [**] and operating [**] total current [**] consistent with the above [**] specifications.
- 4.3.5 [**] GENERATION [**]: [**] completed and first production [**] with 4.3.2 specs supplied to ABB.
- 4.3.6 [**] GENERATION [**]: [**] completed and [**] with 4.3.4 specs supplied to ABB.
- 4.3.7 [**] GENERATION [**]: feasibility demonstrated in [**] with the following combined characteristics:
1. [**] at [**] and in [**] to plane.
 2. [**] and operating [**] total current [**] consistent with the above [**] specification.
 3. [**] resistivity [**] rated current
- 4.3.8 [**] GENERATION [**]: [**] demonstrated with the characteristics of 4.3.7.
- 4.3.9 [**] GENERATION [**]: feasibility demonstrated in [**] with the following combined characteristics:
1. [**] at [**] and in [**] to plane.

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2. [**] and operating [**] total current [**] consistent with above [**] specification.
3. [**] resistivity [**] rated current

4.3.10 [**] GENERATION [**]: [**] available from [**] to [**], with characteristics of 4.3.7.

4.3.11 [**] GENERATION [**]: [**] completed and [**] length with 4.3.9 specs supplied to supplied to ABB.

4.4 DEVELOPMENT DOCUMENTATION

In the quarterly reports, progress on the Work on the basis of tasks defined in Attachment A and [**] will be presented and discussed. The following tasks will also be dealt with.

4.4.1 Conductor Requirement Specifications

4.4.2 Conductor Design Specifications

4.4.3 Test Plan

4.4.4 Test Analysis Report

4.4.5 [**] for [**] conductor and associated costs on reasonable basis available at the time of the preparation of the report.

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ATTACHMENT A
TO ALLIANCE AGREEMENT BETWEEN ASC AND EDF
ASC STATEMENT OF WORK FOR HTS TRANSFORMER WIRE DEVELOPMENT AND
DEMONSTRATION

Wire [**] will be developed in the context of several designs being considered for an HTS transformer. The two main types of wires include 1) [**] with [**] and [**] for use in the [**] of the [**] and 2) an [**] with [**] for use [**] of the [**]. [**] may also be used [**] the [**]. Critical program wire performance issues include (i) [**] and [**], (ii) achieving the [**] under [**], (iii) [**] within [**], (iv) achieving [**] in the [**], and (v) achieving an architecture with [**] during a [**].

The general HTS wire development process proceeds in three stages: first, a feasibility stage using [**]; second, a process development stage for [**] wire; and third, a scaleup for [**]. After feasibility, each [**] stage has an anticipated duration of approximately [**]. This program proposes to [**] this development process for a [**] prototype by using [**] throughout the entire [**], and to enable a [**] which will incorporate [**].

Through the course of the program, several generations of wire with increasingly advanced specifications (summarized in 4.3) are identified as Generation [**], with Generation [**] referring to [**] (not taken beyond feasibility), Generation [**] referring to the [**], and Generation [**] referring to the [**]. This program covers feasibility and [**] for HRS and AC wire types and for all different generations of both [**] Generation [**] AC wire (Generation [**] is not specified) which is excluded. [**] and [**] of [**] is contingent on [**] and a specific [**] program for [**]. [**] of any of the wires is also [**] of the program, [**], which is included.

The anticipated commercial price target, averaged over [**], is [**].

The Wire Development Program is divided into four major segments: [**], with the [**]. Major milestones are listed in Section 4.3 of the Schedule. All fields, currents, and voltages are [**] (unless otherwise specified). Generation [**] conductor specifications will be reviewed by [**] in the light of Generation [**] milestone status and [**] requirements.

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HRS [**] DEVELOPMENT:

HRS [**] will build on the [**], with either a [**] to [**] indicated in the Schedule, Section 4.3. [**] may need to be considered depending on the design established in the [**], and [**] for this task needs to be determined.

Task 1. HRS GEN [**] FEASIBILITY. A baseline [**] for a [**] will be developed, and demonstrated in [**], with Generation [**] as in the Schedule, Section 4.3.7 [**]; and [**].

Both [**] approaches to [**] the [**] will be investigated.

Task 2. HRS [**]. Subject to positive results on [**] of [**] from Task 14, the feasibility of [**], consistent with [**] established by ABB [**], will be tested at ASC [**]. Samples will also be provided to ABB for test. [**] beyond feasibility will be negotiated based on the results of this task.

Task 3. HRS GEN [**] PROCESS. A [**] and [**] and with the other HTS Gen [**] will be developed in [**], starting in [**] to the [**] of Task 1 and completed by [**]. Issues of [**] will be addressed.

Task 4. HRS GEN [**] PROCESS. The [**] of Task 1 will be developed for [**] and combined with the [**] of Task 3, to demonstrate by [**] with the Generation [**].

Task 5. HRS GEN [**] SCALE-UP. A [**] of Generation [**] will be established, culminating with the delivery of a [**] to ABB by [**]. Additional delivery of this [**] for the first [**] prototype will then continue after [**] of this program.

Task 6. HRS GEN [**] FEASIBILITY. Generation [**] will be developed in [**], meeting Section 4.3.9 specs of the Schedule [**], and [**], for a feasibility milestone by [**].

Task 7. HRS GEN [**] PROCESS. The Generation [**] will be developed [**], addressing [**] issues. The [**] will be delivered to ABB by [**]. Delivery of this [**] in production quantities will require [**] and will continue after [**] of this program for [**].

[**]DEVELOPMENT:
[**] requires [**].

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Task 8. [**]GEN [**] FEASIBILITY. [**] with Generation [**] specs of Section 4.3.1 of the Schedule [**] and [**] will be developed via a [**] approach. Feasibility will be demonstrated in [**] by [**].

Task 9. [**] GEN [**] FEASIBILITY. [**] with Generation [**] specs of Section 4.3.2 of the Schedule [**], and [**] will be developed via [**] in the [**] and achieving [**]. Feasibility will be demonstrated in [**] by [**].

Task 10. [**] GEN [**] PROCESS. [**] development of the Generation [**] of Task 9 will begin on [**] and provide a [**] for delivery to ABB by [**]. Scale-up for pilot production will occur after [**]. This task is [**] on [**] such as that from the [**], and on a targeted prototype which requires [**].

Task 11. [**] GEN [**] FEASIBILITY. [**] with Generation [**] of Section 4.3.4 of the Schedule [**] will be developed via [**] in the [**] and achieving [**] in Task 13. Feasibility will be demonstrated in [**] by [**].

Task 12. [**] GEN [**] PROCESS. [**] development of the Generation [**] of Task 8 will begin on [**] and provide [**] to ABB by [**]. Scale-up for commercial production will occur after [**] of this program.

[**]:
Task 13: [**] DEVELOPMENT: This task will target [**] of HRS and/or [**] as needed to meet the total current requirements of the Gen [**] specs. In particular, [**] is expected to be required for reaching the [**] by [**] for Gen [**] and by [**] for Gen [**].

CHARACTERIZATION AND TEST:
These studies will be done in close collaboration with ABB and EDF.

Task 14. [**] FEASIBILITY TESTING. An early task will focus on demonstrating [**] for [**] in HRS [**]. This will start with [**] in applied field. Experiments comparing [**] will be conducted in collaboration with ABB. A first milestone for these experiments is targeted for [**]. [**] or the [**] will be agreed upon with ABB. If adequately [**] are obtained in these first round tests, such studies will be extended to HRS [**] and [**], with a milestone for establishing [**] by [**]. Specs for, and basic approach to, HRS [**] development will be reviewed upon the completion of this milestone.

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Task 15. [**] TESTING. [**] techniques for [**] will be established for [**], and routine [**] will be established to monitor ongoing [**].

Task 16. [**] TESTING. [**] will be constructed and measured for [**] to [**] for all generations of [**] as soon as [**] become available. These tests will confirm [**] in the [**]. Also tests of [**] in [**] will be conducted.

Task 17. [**] TESTING. [**] tests, [**], of HRS and [**] and [**] will be conducted as different generations become available. Specs will be established based on [**] design and manufacturing requirements, including [**] and [**].

Task 18. PROGRAM MANAGEMENT. The technical program will be managed via an ASC program manager in accordance with this agreement.

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ATTACHMENT B

SCHEDULE OF DEVELOPMENT COSTS

EDF payments to ASC are made as defined in Article 3. Follow expected dates for
invoices to be sent by ASC to EDF and related payments:

\$
\$
\$

\$
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ATTACHMENT C: FORCE MAJEURE
CHAMBRE DE COMMERCE INTERNATIONALE

1. Either of the contracting Parties shall not be held responsible for the non accomplishment of any of its contractual obligations if it can be proved that: - this non-accomplishment is the result of impending circumstances beyond the control of the Parties hereto; - the contracting Party could not reasonably have been expected to foresee such impending circumstances and the effects thereof on its ability to perform its obligations under this contract at the time it was entered into; and - the contracting Party could not reasonably have averted or overcome such impending circumstances or at least the effects thereof.
2. Impeding circumstances as used in the above paragraph shall mean any circumstances arising out of any of the events listed below, which include but are not limited to:
 - (a) war, declared or undeclared, civil war, riots and revolution, acts of piracy, sabotage;
 - (b) natural disasters such as violent storms, cyclones, earthquakes, tidal waves, floods, destructions by lightning;
 - (c) explosions, fires, destructions of machines, factories and facilities of whatever nature;
 - (d) boycotts, strikes and lock-outs of whatever form, work-to-rule, occupations of factories and premises, stoppages taking place in the companies of the contracting Party requesting the exemption of its liability thereof;
 - (e) actions taken by authorities, whether legal or illegal, with the exception of the actions the risk of which is assumed by the Party in question in accordance with other clauses of this contract, and which fall outside the scope of the provisions of paragraph 3 here under.
3. For the purposes of the above paragraph, and unless otherwise stipulated herein, impeding circumstances shall not include failure to obtain authorizations, licenses, entry visas or residence authorizations, or authorizations required for the performance of the contract and which have to be issued by any public authority whatsoever of the country of the Party requesting exemption of its liability.
4. The Party requesting the exemption of its liability shall give prompt notice to the other Party of the circumstances involved and their effects on its ability to fulfill its contractual obligations as soon as it is aware of such circumstances and their effects on its ability to perform its obligations. Notice shall also be given to the other Party of the coming to an end of the reason for this liability exemption.
5. The reason for liability exemption shall take effect from the time the impeding circumstances arise or, if notice thereof is not given promptly, from the time such

notice is given. The failure to give such notice shall render the defaulting Party liable to the payment of damages which would otherwise have been able to be avoided.

6. A reason for liability exemption under the present clause shall exempt the defaulting Party from the payment of damages, penalties and other contractual sanctions, with the exception of the payment of interests on sums owing, for as long as and insofar as this reason continues.
7. Such a liability exemption reason also suspends the agreement performance deadline for a reasonable period, thereby excluding any rights the other Party may have to terminate or cancel the agreement. To determine what is to be considered a reasonable period, account shall be taken of the ability of the defaulting Party to resume agreement performance and the degree to which the other Party would benefit from such performance in spite of the delays. Pending the defaulting Party resuming performance of its obligations, the other Party shall suspend the performance of its own obligations.
8. If such reasons extend beyond the period agreed by the Parties (the applicable period shall be specified herein by the Parties) or, failing such arrangements, beyond a reasonable period, either Party shall be entitled to rescind the agreement giving due notification thereof.
9. Either Party may keep what it has obtained through the performance of the agreement prior to its termination. Each Party is accountable to the other with regard to any gain without cause arising out of this performance. The final balance shall be paid without delay.")

EXHIBIT 10.29

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AGREEMENT
BETWEEN
AMERICAN SUPERCONDUCTOR CORPORATION
AND
ABB TRANSMISSION & DISTRIBUTION TECHNOLOGY LTD.

AGREEMENT

This Agreement is entered into and shall be effective as of April 1, 1997 ("Effective Date") by and between ABB Transmission & Distribution Technology Ltd., a corporation of Switzerland, with its principal office at Affolternstrasse 52, CH-8050 Zurich, Switzerland (hereinafter referred to as "ABB") and represented in the U.S.A. by ABB Power T&D Company Inc., its agent and American Superconductor Corporation, a Delaware Corporation with offices at Two Technology Drive, Westborough, MA 01581, (hereinafter, together with its Affiliates, "ASC").

DEFINITIONS

In this Agreement the terms listed below have the following meanings:

D.1 ASC BACKGROUND TECHNOLOGY. All AC and HRS HTS wire discoveries, inventions, data, computer programs and documentation conceived or first reduced to practice by ASC prior to the effective date of this Agreement or outside the course of the Work and incorporated into the Deliverables or AC and HRS HTS wire.

D.2 ASC INTELLECTUAL PROPERTY RIGHTS. All intellectual property rights in the Technology, including without limitation all current and future worldwide patents and other patent rights, utility models, copyrights, mask work rights, trade secrets, and all applications and registrations with respect thereto.

D.3 ASC BACKGROUND INTELLECTUAL PROPERTY RIGHTS. All intellectual property rights in ASC Background Technology, including with out limitation all current and future worldwide patents and other patent rights, utility models, copyrights, mask work rights, trade secrets and all applications and registrations with respect thereto.

D.4 DATA. Books, records, reports, articles, research notes, charts, graphs, comments, computations, analyses, blueprints, specifications, drawings, recordings, photographs, samples of materials, and other graphic or written data generated in connection with the Work.

D.5 THIRD PARTY INFORMATION. Copyrighted works or proprietary or confidential information of a third party.

D.6 ASC PRIOR INVENTION. Any invention or know-how made or developed by ASC and/or licensed to ASC prior to the date of this Agreement or outside the course of the Work.

D.7 ASC CONFIDENTIAL INFORMATION. Information concerning ASC business and technology and related information which is confidential or proprietary to ASC.

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D.8 ABB CONFIDENTIAL INFORMATION. Information concerning ABB's or ABB Affiliates' business and technology and related information which is confidential or proprietary to ABB or ABB Affiliates.

D.9 i) ABB PATENTS. ABB's patents, and the associated knowledge necessary to apply the patents, developed prior to and during the course of the Work, relating to the design and manufacture of AC and HRS HTS wires for application in Transformers.

ii) ABB AFFILIATES' PATENTS. ABB Affiliates' patents, and the associated knowledge necessary to apply the patents, developed prior to and during the course of the Work, relating to the design and manufacture of AC and HRS HTS wires for application in Transformers.

D.10 TRANSFORMER. An electromagnetic device comprising a magnetic circuit and both input and output windings and with primary winding voltages of [**] class or greater, a [**] and power ratings of [**] and both with and without a [**] included in the [**]. This shall include alternating current ("AC") [**] for [**] and [**] system transformers and [**] with primary voltages of [**] and above and power ratings of [**] and above and all for transmission and distribution of electric power. This shall not include other power devices such as [**].

D.11 AFFILIATES. With respect to either ABB or ASC shall mean any entity in which ABB or ASC or their parent company(ies) (one or more parent companies in an upward series) shall at the time in question directly or indirectly own fifty percent (50%) or more of the shares or other interest carrying fifty percent (50%) or more of the voting power to elect directors or other managers of the said entity.

D.12 AC WIRE. HTS Wire which can maintain low alternating current ("AC") losses in a [**].

D.13 HRS WIRE. HTS Wire with high longitudinal resistivity sheathing in the [**].

D.14 WORK. The technical work done under this Agreement and as further set forth in Article 1, Subarticle 1.1.

D.15 TECHNOLOGY. All discoveries, inventions, data, computer programs and documentation conceived or first reduced to practice by ASC in the course of the Work.

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D.16 CURRENT LIMITER. A stand-alone device or component for limiting fault currents in electric power transmission and distribution systems using high temperature superconductor wires. This can be[**] but is not part of the transformer winding. Transmission Current Limiters are designed for preventing fault overload in power transmission systems operating at voltages [**], and distribution Current Limiters are designed for preventing fault overload in systems which operate at voltages [**].

D.17 HTS. High temperature superconductors for use at [**].

D.18 ASC FISCAL YEAR. The ASC Fiscal year goes from April 1 of the previous year to March 31 of the following year. E.g. April 1, 1997-March 31, 1998 is the 1998 Fiscal year.

D.19 LINE TRANSMISSION AND DISTRIBUTION FIELD. The field of line transmission and distribution of (i) electrical power from at least one point to another and (ii) electrical control signals, where "Line Transmission and Distribution" means transmission and distribution by cable, wire or the like physical link in the form of an elongated conductor which is used to transport electrons, provided however that this field does not include [**] when used for the generation of magnetic fields. Certain cables for the transmission of [**] are included in the Line Transmission and Distribution Field.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter set forth, the parties intending to be legally bound, agree as follows:

BACKGROUND

B.1 ABB is organized to manufacture, sell and conduct and, as it deems appropriate to engage others to conduct research and development with respect to the transmission, distribution, and utilization of electric energy.

B.2 ASC has in the past and is presently equipped and qualified to perform research, manufacturing and development in the area of high temperature superconductors ("HTS"). ASC also has expertise in HTS wire current leads, coil design, coil manufacturing and cryointegration and can be a potential supplier of these technologies and products. ASC also desires to be in the business of development, manufacturing and the offering for sale of Current Limiters.

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B.3 ABB and ASC, from time-to-time have been working together since April 1, 1996, and it is understood by both parties that the cost for HTS wire development will be more than [**], and that there are significant technical and business risks related to this development. Therefore, to offset some of ASC's development cost for AC and HRS wire, ABB desires to contribute to the cost of additional research and development by ASC as described herein, and to have the results thereof made available to ABB under this agreement.

B.4 ABB's primary purpose in entering into this Agreement is for ASC to develop and make available to ABB certain information and deliverables, and to establish various pricing discount rights with respect thereto, for the benefit of ABB.

B.5 Outside of this Agreement, ABB will be responsible for design, development, manufacturing and marketing of Transformers and any other devices (except for [**]) in which ABB may wish to develop using the AC and HRS HTS wire developed under this Agreement, including the necessary research and development of the [**] as appropriate.

B.6 Under this Agreement ASC will be responsible for the development, manufacturing and delivery to ABB of the AC and HRS HTS wire that will meet certain performance targets as provided for under the Schedule to this Agreement. ASC will also collaborate closely with ABB in the test of wire and subset model coils and other relevant physical measurements to ensure that the wire meet ABB specifications.

B.7 ASC and Electricite de France ("EDF") are establishing a separate agreement ("ASC/EDF Separate Agreement") whereby EDF will provide certain development funding directly to ASC for the development of the AC and HRS HTS wires. Under the ASC/EDF Separate Agreement ASC may share certain information with EDF resulting from the Work undertaken as a part of this Agreement. All such shared information will be governed by the provisions of Article 9, Subarticle 9.2.

B.8 It is understood that ASC has the right to sell AC and HRS HTS wires developed under this Agreement to third parties, and ABB has the right to purchase any HTS wires from third parties.

B.9 ASC and Pirelli Cavi S.p.A. ("Pirelli") entered into a separate agreement dated October 1, 1995 granting Pirelli: certain exclusive licenses in the Line Transmission and Distribution Field; a right of first negotiation concerning research directed to the development, manufacture, installation or operation of products which are designed to

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be used for transmission of voice, data, or video signals; a one-time only right to enter into an agreement based on an ASC proposal for research and development and commercial exploitation of Transmission Current Limiters; and a right of first refusal for any third party agreement for the research and development and commercial exploitation of Transmission Current Limiters.

OBJECTS OF AGREEMENT

0.1 The overall objective of this Agreement is to develop AC and HRS HTS wires for application in Transformers at [**]. ABB anticipates that the development of these wires in the timeframe defined in this Agreement and with the performance characteristics indicated herein, will permit prototype Transformers in the range of [**] to be available for field installation and evaluation in the years [**] with Transformers in the range of [**] available commercially in the [**] timeframe.

0.2 The parties recognize their mutual interdependence under this Agreement, and that it is in the best interest of both Parties to work together to achieve its overall objective. It is expected that the successful completion of this Agreement will result in further joint efforts to enhance and extend the technology developed under this Agreement. ASC and ABB acknowledge that they are independent parties and that no partnership, joint venture or other joint arrangement has been expressly or impliedly agreed to under this agreement and that nothing in this agreement shall make either party the agent or legal representative of the other for any purpose whatsoever, nor does it grant either party any authority to assume or to create any obligations on behalf of or in the name of the other, except as expressly set forth herein.

ARTICLE 1

PERFORMANCE OF THE WORK

1.1 WORK. ASC shall use its best efforts, within commercially reasonable limits, to perform the work (the "Work") and deliver the deliverables (the "Deliverables") set forth in the Statement of Work in the schedule attached hereto and made a part hereof (the "Schedule") within the "Budget" as defined in Subarticle 2.3 below. The Work shall be performed by ASC under the general direction of the project review board (The "PRB") as defined in the Schedule - Attachment C.

1.2 PERIOD OF PERFORMANCE. ASC shall use its best efforts, within commercially reasonable limits, to complete the Work, including submission of technical reports within

the time period(s) set forth in the Schedule (the "Period of Performance") and within the Budget.

1.3 PROJECT MANAGERS. A project manager will be designated by ABB (the "ABB Project Manager") and by ASC (the "ASC Project Manager") as defined in the Schedule. ABB and ASC, at any time, may designate a new project manager by written notice to the other party. The ASC Project Manager will maintain contact with the ABB Project Manager during the Period of Performance. ASC will provide briefings on the progress of the Work, in addition to the reports required by this Agreement, as reasonably requested by the ABB Project Manager. Reports, communications, and questions of a technical nature shall be transmitted to the ABB Project Manager at the address set forth in Article 16. Matters of a contractual nature, including but not limited to Agreement terms, annual funding, the Period of Performance and issues affecting the Budget (as defined in Subarticle 2.3 below), shall be sent to the ABB Project Manager in accordance with Article 16 of this Agreement with an information copy to the ABB Business Development Manager.

1.4 FORCE MAJEURE. ASC shall not be liable for failure to perform or delay in performance resulting solely from one or more of the following conditions: from acts of God, acts of civil or military authority, acts (including delays or failures to act) of any governmental authority, insurrection or riot, fire, strike, work stoppage or other labor difficulties, failure or delay beyond ASC's reasonable control in obtaining necessary materials from usual sources, or any cause beyond ASC's reasonable control.

1.5 COST OF EXCUSABLE DELAYS. The entire cost of any measures taken at the request of ABB to overcome such excusable delay or delays will be for ABB's account above the Budget defined in the Schedule.

ARTICLE 2

COSTS

2.1 COST REIMBURSEMENT. ABB shall reimburse ASC for all costs incurred in the performance of the Work, subject to the limitations contained below in this Article 2, and Article 3 of this Agreement.

2.2 BEST EFFORTS. ASC agrees to use its best efforts, within commercially reasonable limits, to perform the Work within the "Budget" as set forth in Article 2, Subarticle 2.3.

2.3 BUDGET. The total project budget (The Budget) is set forth in the Schedule. ABB's commitment of funds for each contract year is set forth in the Schedule. ABB shall not be obligated for costs in excess of that set forth in The Budget. A Joint Steering Committee as set forth below in this Subarticle 2.3, shall have the authority to revise the

Budget based on recommendations of the Project Review Board (PRB). The composition and duties of the PRB are set forth in Attachment C to this Agreement. A Joint Steering Committee will be established to coordinate joint business opportunities and to give directions to the PRB, and to review progress and approve recommendation by the PRB with respect to milestones and budgets. This Committee will meet annually or more frequently as needed. The Joint Steering Committee shall be composed of two representatives for each party.

2.4 ACCOUNTING PROCEDURES. ASC's costs shall be determined on the basis of ASC's accounting system, procedures and practices employed as of the effective date and during the performance of this Agreement; provided that ASC shall use generally accepted accounting principles and cost reimbursement practices.

2.5 ALLOWABLE COSTS. The costs for which ASC shall be reimbursed under this Agreement include all costs, direct, indirect and overhead incurred in the performance of the Work. Costs must be incurred within the Period of Performance, except for an amount equivalent to that paid by ABB to ASC prior to the Period of Performance specified in the Schedule. Factors to be considered in determining whether an individual item of cost is allowable includes (i) reasonableness of the item, (ii) allocability of the item to the Work, (iii) ASC's use of generally accepted accounting principles, and (iv) the other terms and conditions of this Agreement. ABB and ASC will finalize the direct, indirect and overhead rates as promptly as practicable in accordance with procedures followed by ASC and acceptable to the ABB Corporate Audit Manager. ABB agrees that the indirect and overhead rates will be consistent with the established practices and procedures utilized by ASC for its cost reimbursement contracts with other corporate partners.

2.6 AUDIT RIGHTS. ASC shall maintain books, records, documents, and other evidence based on the procedures set forth above, sufficient to reflect properly all costs incurred in performing this Agreement. The audit of corporate allocations will be limited to the supporting documentation at the division(s) performing the Work. A certified public accounting firm designated by ABB, from a list of such firms as proposed by ASC, may audit such accounting records at all reasonable times with prior notice by ABB. ABB shall bear the expense of such audits. It is the intent of the parties that such audits shall ordinarily be performed not more frequently than once every twelve (12) months during the performance of the Work. The certified public accounting firm conducting the audit will certify the accuracy of ASC's costs, calculations and appropriateness of the allocation methodology. Such accounting firm will be required to execute an appropriate confidentiality agreement.

ARTICLE 3

PAYMENTS

3.1 INVOICING. Invoices shall be submitted in advance on a quarterly basis in triplicate as set forth in the Schedule. The period of time covered, including the beginning and ending dates, must be specified on each invoice. The invoice will reflect the payments to be made by ABB as reflected in the Schedule. Actual cost and planned expenditures will be reviewed at the PRB meetings.

3.2 PAYMENTS. Subject to the provisions of Article 2, ABB shall pay ASC the total amount of each invoice received and approved by ABB. Requests for payment with accompanying invoices shall refer to the ABB research project number and shall be submitted by ASC to the attention of the ABB Accounts Payable. ABB's payments shall be directed to AS C's address shown on the invoice unless the parties agree otherwise. If ABB has not paid an invoice within ninety (90) days of receipt by ABB, or ABB has not notified ASC of the problem(s) associated with such invoice, a finance charge of one percent (1.0%) per month, or part thereof, shall accrue and be paid by ABB.

ARTICLE 4

REPORTS

4.1 TECHNICAL PROGRESS REPORTS. ASC shall submit technical progress reports to the ABB Project Manager at such regular intervals as are set forth in the Schedule. Such reports shall be in sufficient detail to disclose Work accomplished and results achieved during the reporting period. In addition, such reports shall include a summary in non-technical language which briefly describes the Work and sets forth the important results and contents of the report. Insofar as it has a right to do so, and disclosing information deemed to be confidential information, in accordance with Article 9.2, ASC shall endeavor to keep ABB generally informed in such reports as to the development of work performed by ASC for its own account or in connection with research contracts in effect with others, when such work is pertinent to the Work hereunder.

4.2 REPORT DISTRIBUTION. All technical reports of any nature developed and furnished under this Agreement are intended solely for the purpose of communicating and transferring information relating to research and are subject to Article 9 of this Agreement. Technical progress and preliminary reports furnished by ASC to ABB hereunder and any report resulting from this Agreement may be distributed to ABB's Affiliates subject to Article 9 of this agreement.

4.3 ADMINISTRATIVE/FINANCIAL REPORTS. ASC shall provide administrative and financial reports as set forth in the Schedule.

ARTICLE 5

DATA

ASC agrees to maintain the Data in sufficient detail to properly reflect all Work done and results achieved in the performance thereof. Ownership of all Data produced, generated or procured under this Agreement, including under any subcontracts, shall be as provided in Subarticle 7.1.

ARTICLE 6

COMPUTER PROGRAMS

6.1 OWNERSHIP. Title and ownership of computer programs copyrights and patents therein, shall be as provided in Subarticle 7.1.

6.2 SECURITY. If ASC uses computer software of any kind (designed for workstations or personal computers) in the performance of the Work, including but not limited to development thereof, ASC shall systematically check all such computer software against computer virus contamination. ASC shall check all such computer software before transmittal of any computer software outside of the development environment and in a manner acknowledged by ABB to be accepted industry practice.

ARTICLE 7

INTELLECTUAL PROPERTY RIGHTS

7.1 OWNERSHIP.

(i) Subject to the provisions of Subarticles 7.1(ii), (iii), 7.3 and 7.4 below, relating to ABB Patents, third party rights or ASC's abandonment of the development technology, ASC shall own exclusively all right, title, and interest in and to Technology, and ASC Intellectual Property Rights therein.

(ii) ABB agrees to grant and hereby grants to ASC a nonexclusive, worldwide license, to incorporate ABB Patents in AC and HRS HTS wires (a) royalty free to ASC for AC and HRS HTS wires sold to ABB or ABB Affiliates, and (b) royalty bearing for sales or use by other than ABB or ABB Affiliates on terms to be mutually agreed upon in the future.

(iii) ABB endeavors to obtain for ASC a nonexclusive, world-wide license to incorporate ABB Affiliates' Patents in AC and HRS HTS wires, (a) royalty free to ASC for AC and HRS HTS wires sold solely to ABB or ABB Affiliates, and (b) royalty bearing for sales or use by other than ABB or ABB Affiliates on terms to be agreed upon with the ABB Affiliates.

(iv) In the event of a joint invention, such joint invention shall be jointly owned by ABB and ASC. In the event of a joint invention among ABB, ASC and a third party, such joint invention shall be jointly owned by ABB, ASC and such third party.

The parties shall mutually determine under the auspices of the PRB and, if a third party inventor is included, in coordination with the third party, whether or not application(s) for patents shall be filed, the party which will prepare, file and manage such application and the country or countries in which the same are to be filed. Unless otherwise agreed, all expenses incurred for filing and prosecution of such joint invention applications shall be divided equally between the parties.

Each joint owner shall possess an equal and undivided interest in any joint invention, with the unrestricted right to make, have made, use, sell, license and sublicense the invention without accounting to the other joint owners. Items which may be joint inventions will be reviewed at each PRB meeting.

(v) ASC hereby grants to ABB and ABB Affiliates an irrevocable, exclusive, perpetual, worldwide, royalty-free license in the field of Transformers, under all ASC Intellectual Property Rights relating to Transformers except those relating to AC and HRS HTS Wire to make, have made, use and sell Transformers incorporating this portion of the Technology. ASC agrees to grant and hereby grants to ABB and ABB Affiliates a non-exclusive, worldwide license in the field of Transformers under all ASC Background Intellectual Property Rights relating to Transformers except those relating to AC and HRS HTS Wire to make, have made, use and sell Transformers incorporating these portions of the ASC Background Intellectual Property Rights (a) royalty-free for Transformers made from AC and HRS HTS Wire purchased from ASC, and (b) royalty-bearing for Transformers made from third party wire on terms to be mutually agreed upon in the future.

7.2 NO CLAIM. The Parties agree that they will not assert or establish or assist any third party with respect to any claim for intellectual property rights inconsistent with those granted to ABB or ASC herein.

7.3 INCORPORATION OF ASC PRIOR INVENTION. If ASC incorporates into Deliverables or AC or HRS HTS Wire any ASC Prior Invention, such ASC Prior Inventions shall become part of the ASC Background Intellectual Property Rights licensed by ASC to ABB in Section 7.4 ii) below, to the extent that ASC has the right to do so and shall otherwise become subject to the provisions of 7.4 iii).

7.4 LICENSING. ASC agrees to grant and does hereby grant to ABB to the extent that ASC may grant such licenses and undertake such obligations without breach of law, i) an irrevocable, exclusive, perpetual, worldwide, royalty free license, with rights to sublicense, under ASC Intellectual Property Rights to make, have made, use and sell products incorporating Technology in the field of Transformers and, to make, have

made, use and sell AC and HRS HTS Wire incorporating Technology (except for products in the Line Transmission and Distribution Field) and, ii) an irrevocable non-exclusive, perpetual, worldwide, royalty free license, with rights to sublicense, under ASC Background Intellectual Property Rights, to make, have made, use and sell products in the field of Transformers, and, to make, have made, use and sell AC and HRS HTS Wire incorporating Technology (except for products in the Line Transmission and Distribution Field) and iii) if ASC knowingly after a reasonable investigation incorporates into the Technology Third Party Information, ASC agrees to use reasonable efforts at an appropriate time and at a reasonable cost for the value obtained, to obtain a non-exclusive license for ABB to use such Third Party Information; provided, however, that the foregoing grants and obligations shall only apply in the event that ASC abandons AC and/or HRS HTS wire technology or the Technology as evidenced by, i) an inability to fill orders based on mutually agreed specifications and delivery dates at the time of a firm purchase order from ABB for a period of eighteen months, during the duration of this Agreement or for commercial orders for 10 years thereafter, provided, ABB has supported the development effort at ASC through commercialization as set forth in this Agreement, and as long as ASC has provided them, ABB has purchased ninety percent (90%) of its requirements of AC and HRS HTS wires for Current Limiters and Transformers from ASC for commercialization; or, ii) ASC's notification to ABB in writing that they will no longer supply AC and HRS HTS wires; or iii) termination of this Agreement under the provisions of Article 15, Subarticles 15.3 or 15.4. or, (iv) ASC rejects this Agreement pursuant to section 365 of the United States Bankruptcy Code. In the event the licence in this paragraph is exercised, the Technology will be supplied to ABB to the extent necessary through training and in documentary form in sufficient detail to be self-explanatory, consistent with provisions of subarticle 18.7 and so as to enable one skilled in the art, to make, use and sell AC and HRS HTS Wire incorporating the Technology and ASC Prior Invention, and this may include multiple week visits by ABB or its authorized representative to the ASC facilities where the Work is done to observe the Work in sufficient detail to make use of the Technology.

7.5 LICENSING TO EDF AFTER ASC ABANDONMENT OF TECHNOLOGY. In the event that ASC abandons AC and/or HRS HTS wire technology or the Technology under the conditions set forth in Section 7.4 above, and ABB exercises its rights under Section 7.4 above, ABB, contingent upon EDF continuing the funding of ABB or whomever ABB selects to continue with the completion of the Work, or has fully funded the Work as set forth under the ASC/EDF Separate Agreement, agrees to grant and does hereby grant to EDF the same rights provided to EDF as set forth in the ASC/EDF Separate Agreement, Article 4: Pay-back, section 4.3 Royalties and section 4.4 Commercial Discounts; Such Article and Sections are set forth in Attachment D.

7.6 ABB agrees that no AC or HRS HTS wires developed under this Agreement, no HTS wires sold to it or its Affiliates by ASC, and no AC or HRS HTS wires manufactured by it or for it or its Affiliates under any license granted by ASC or using any Technology developed hereunder will be used for products in the [**].

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ARTICLE 8

INTENTIONS AND EXPECTATIONS OF THE PARTIES

8.1 BUSINESS PLAN FOR HTS BASED POWER TRANSFORMERS

a) Outside of this Agreement ABB has successfully demonstrated a 630 kVA, HTS transformer based on DC HTS wires supplied by ASC, in the first quarter of 1997.

b) ABB and/or it's Affiliate(s) plan to have in place an agreement with a third party (or parties) to provide funding support to ABB for the HTS transformer prototype development and construction.

c) ABB and/or its Affiliate(s) plan to deliver [**] HTS transformer prototypes for markets in Europe and the United States in [**].

8.2 BUSINESS PLAN FOR HTS WIRE PRODUCTION.

By [**], ABB and ASC will develop a business plan that will project the potential for HTS wires, the timing of beta test sites, the timelines for commercialization etc. Two years before the expected commencement of either commercial sales or sale of prototypes, the parties will develop a procedure to be followed for forecasting and meeting the future needs of ABB and facility requirements of ASC on an ongoing basis. Once ABB and ASC have agreed to the forecast and delivery requirements, ABB will be given "preferred availability" rights and ASC will first meet the ABB requirements for the AC and HRS HTS wire before other customers for AC and HRS HTS wire. This preferred availability right will be for the same period as the price discount in section 8.3 a). As part of this business plan the parties will mutually agree on the definition of commercial sale.

8.3 COMMERCIAL DISCOUNTS

a) ASC will provide to ABB and ABB Affiliates, an irrevocable right to at least a [**] price discount from the lowest commercial price available from ASC for similar quantities for all commercial products purchased from ASC which embody the Technology. However, since ASC has agreed to discount certain transactions concerning the [**] in consideration of EDF's development funding for the HRS and AC HTS conductor Work, ASC shall have the right to assign a [**] to the EDF development

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funding as a portion of [**] of these transactions only. Thus, ABB agrees that no [**] under this section 8.4 shall be applied to the [**] price. The ABB price discount will apply until such time as ABB [**] to ASC under this Agreement or [**] from the [**] of HTS commercial conductors [**], whichever is the earliest.

b) In further recognition of ABB's contribution to the development of AC and HRS HTS wires, ASC agrees that at no time will any royalties payable or paid by ASC to EDF on AC or HRS HTS wires under the ASC/EDF Agreement be considered in determining the price of such wires offered for sale or sold to ABB or ABB Affiliates.

8.4 DISCOUNTS ON DEMONSTRATION AND PROTOTYPE WIRE

a) ASC understands that it is ABB's goal that, in the period of the Agreement the total cost to ABB of the HTS conductor purchased for any demonstration Transformer system shall not exceed [**] of the total cost of the demonstration Transformer system to ABB. The conductors produced during this period will be demonstration and prototype conductors, not commercial conductors. During this period ASC agrees that if the applicable discount offered to ABB under Article 8.4 b) or 8.4 c) results in a total HTS conductor cost for any demonstration Transformer system which exceeds ABB's [**] goal, ASC will increase its discount by up to an additional [**] to meet ABB's [**] goal. In the event that the total cost to ABB of the HTS conductor is still greater than [**] of the total cost of the demonstration Transformer system to ABB, both ASC and ABB will share the remaining cost difference equally between them. ASC's fully loaded HTS conductor cost and the total cost of ABB's demonstration Transformer system will be based on GAAP accounting.

b) In the period of the Agreement ASC will offer to ABB wires based on the Technology for the first prototype transformer, "EDF Transformer", and any associated experimental coils at a [**] discount to the ASC fully loaded cost per unit for use in the field of Transformers. The fully loaded cost will be based on GAAP accounting.

c) In the period of the Agreement ASC will offer to ABB wires based on the Technology for the second prototype transformer, "SCE transformer", and any associated experimental coils a [**] discount to the ASC fully loaded cost per unit or, if in effect at that time, the established market price for such wires for the use in the fields of Transformers.

ARTICLE 9

CONFIDENTIALITY AND RESTRICTIONS ON DISCLOSURE AND USE

9.1 ABB INFORMATION.

a) ASC acknowledges that during the term of this Agreement it may be exposed to certain information concerning ABB's business and technology and related information which is confidential or proprietary to ABB. All ABB CONFIDENTIAL INFORMATION shall be marked by ABB as "ABB CONFIDENTIAL". ASC shall protect and maintain such ABB CONFIDENTIAL INFORMATION in the same manner and to the same degree it protects its own confidential information, but in no event with less than reasonable care.

b) ASC agrees that during the term of this Agreement and for a period of ten (10) years, thereafter unless both parties agree to extend the period beyond ten (10) years, it will not use any ABB CONFIDENTIAL INFORMATION except in accordance with the provisions and for the purposes of this Agreement, and will not disclose any ABB CONFIDENTIAL INFORMATION to any third party without the prior written consent of ABB.

9.2 ASC INFORMATION. The parties contemplate that in the performance of the Work ASC may furnish information to ABB that is confidential or proprietary to ASC. ASC shall clearly mark it as "ASC CONFIDENTIAL INFORMATION". ABB shall protect and maintain such ASC CONFIDENTIAL INFORMATION in the same manner and to the same degree it protects its own confidential information, but in no event with less than reasonable care. ABB agrees that during the term of this Agreement and for a period of ten (10) years, thereafter unless both parties agree to extend the period beyond ten (10) years, ABB or ABB Affiliates with a need to know only will not use any ASC CONFIDENTIAL INFORMATION except in accordance with the provisions and for the purpose of this Agreement, and will not disclose any such ASC CONFIDENTIAL INFORMATION to any third party (except to ABB Affiliates who require access to such information and who agree to be bound by Article 9) without the prior written consent of ASC. The Technology, when marked confidential will be treated as such by the parties, except that information strictly related to AC and HRS wire may be disclosed by ASC to EDF in accordance with their Separate Agreement; provided, however, that ABB CONFIDENTIAL INFORMATION shall not be disclosed to EDF without the prior written consent of ABB.

9.3 EXCEPTIONS. The provisions of this Article 9 shall not apply to either party's CONFIDENTIAL INFORMATION to the extent that:

a) such information was generally known or otherwise in the public domain prior to disclosure hereunder, or becomes so known subsequent to such disclosure through no fault of the receiving party; or

b) such information is received by the receiving party after the Effective Date of this Agreement without restriction from a third party not under an obligation to the disclosing party not to disclose it and otherwise not in violation of the disclosing party's rights; or

c) such information is furnished to third parties by the disclosing party without a similar restriction on the third party's rights, or

d) such information is already in the possession of the receiving party, as shown by written records, without violation of this Agreement.

e) such information has been independently developed by the receiving party without reference to or reference on the other party's Confidential Information.

9.4 COURT ORDER. In the event either party's Confidential Information is subpoenaed or otherwise required to be produced or made available by the other party to a third party by order of a court or governmental administrative agency, the party required to produce such information shall promptly notify the other party in writing and allow ten (10) days or, if less, the maximum amount of time possible under the circumstances, for response by the disclosing party before producing such documents. The receiving party will cooperate with the disclosing party in obtaining a protective court order or take such other action as may be appropriate under the circumstances.

9.5 SURVIVORSHIP. The provisions of this Article 9 shall survive any termination of this Agreement.

ARTICLE 10

REPRESENTATIONS, WARRANTIES AND COVENANTS

10.1 ASSIGNMENTS AND LICENSES. Each party represents and warrants for itself to the other party on a continuing basis that each party has the right and power to make any assignments and the right and power to grant any licenses as may be provided for in this Agreement.

10.2 BINDING OBLIGATION. This Agreement is the valid and legally binding obligation of each party in accordance with its terms, subject to bankruptcy, reorganization, insolvency, moratorium and similar laws and to general principles of equity which are within the discretion of courts of applicable jurisdiction.

10.3 NO LITIGATION OF CLAIMS. ASC represents and warrants to ABB that to the best of ASC's knowledge at the time of execution of this Agreement, there is no pending litigation or knowledge of a claim which may substantially affect ASC's ability to fulfill its obligations pursuant to this Agreement.

10.4 AGREEMENTS WITH EMPLOYEES. Except as otherwise prevented by law, both parties will maintain with their respective employees, agents, subcontractors and consultants who perform under this Agreement and who have access to the Technology, written agreements sufficient to enable each party to perform its obligations hereunder.

10.5 COMPLIANCE WITH LAWS. Each party will comply with all laws and regulations applicable to the performance of its obligations hereunder, including, without limitation, all safety, health and environmental laws, and will obtain all necessary government authorizations, approvals and permits required to perform the Work.

10.6 ASC represents and warrants to ABB that the ASC/EDF Separate Agreement shall not diminish or abrogate the rights of ABB under this Agreement.

10.7 ASC PROMISES AND COVENANTS.

NO INFRINGEMENT. ASC shall perform the Work in a manner so that to the best of ASC's knowledge, neither the Technology being developed, the Deliverables being supplied to ABB, nor the exercise by ABB of any of the rights granted hereunder, infringes any intellectual property right of any third party; provided, however, the foregoing covenant shall not apply to patent rights, and to copyrights unless ASC knowingly infringes such copyrights.

ARTICLE 11

VISITS AND INSPECTIONS

11.1 VISITS. ABB and any of its authorized representatives, shall have the right, with reasonable notice, during ordinary business hours to visit the offices of ASC and its subsidiaries, if any, and to visit and inspect the site or sites at which the Work is being performed, to the extent that such visits do not unreasonably interfere with the Work. These visits and inspections may include multiple week visits by ABB to participate in specific tasks that will be mutually defined, and to observe the Work in sufficient detail to make informed decisions on the direction and use of the Work as it relates to design of Transformers and Current Limiters. Any such long term visiting ABB employees or representatives shall have signed or will sign a confidential agreement acceptable to ASC for protecting ASC Confidential Information.

11.2 FACILITIES. ASC shall provide all reasonable facilities and assistance for the safety and convenience of such representatives during their visits, including making personnel engaged in the performance of the Work available for consultation at all reasonable times.

ARTICLE 12

PUBLICITY RELEASES

PRIOR APPROVAL. Unless required by law or stock market regulations neither party may issue any publicity releases (including news releases and advertising) relating to this Agreement and the Work performed hereunder without the prior written approval of the other party. Such approval shall not be unreasonably withheld. ABB and ASC will coordinate their responses to any substantial inquiry from news media concerning this Agreement.

ARTICLE 13

INDEMNIFICATION AND LIMITATION OF LIABILITY

13.1 INDEMNITY. Both parties shall protect, defend, indemnify and hold harmless the other party its agents, employees and directors from any claim, loss, cost, liability or expense (including court costs and reasonable fees of attorneys and other professionals) arising out of or resulting from any breach of the representations, warranties and covenants made in Article 10; not withstanding Subarticle 10.6, ASC will indemnify ABB against any claims that the Deliverables under this agreement infringe any third party patents and copyrights.

13.2 GENERAL INDEMNITY. Notwithstanding Subarticle 13.1 herein. each party shall protect, defend, indemnify and hold harmless the other party, its agents, employees and directors from any claim, loss, cost, liability or expense (including court costs and reasonable fees of attorneys) arising out of any injury, including death, or any property damage suffered by any third party as a result of or related to any negligent act or negligent failure to act of such parties subcontractors or its subsidiaries, or of any of their respective employees or agents in connection with or related to the Work or the performance of this Agreement except to the extent that any losses, costs, liabilities, claims or expenses are the result of any negligent act or negligent failure to act of the other party, its agents, employees and directors, such directors only when acting in their official capacity.

13.3 CONDITIONS AND OBLIGATIONS. Each party's obligations under Subarticles 13.1 and 13.2 above are conditioned upon (i) the other party giving notice, which is timely under the particular circumstances, to such party's representative (as such representative is specifically named in Article 16 herein), of any claim made against the other party or any claim made by the other party hereunder, provided, however, notice shall be considered timely unless such party has suffered substantive or irreparable prejudice as a result of a delay by the other party in giving notice to such party in (y) the defense of such claim or (z) such party giving notice to an applicable insurer of such claim and (ii) the other party giving such party the right to control and direct any investigation, defense and settlement of such claims, provided, however, such party shall not settle,

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compromise or resolve such claim (except if such settlement, compromise or resolution consists only of a payment of money to be made by ASC) without the prior written approval of the other party (which approval shall not be unreasonably withheld). The other party shall provide full and timely cooperation to such party in the defense or settlement of such claims.

13.4 LIMITATION OF LIABILITY. (i) IN NO EVENT WILL EITHER PARTY BE LIABLE TO THE OTHER FOR ANY SPECIAL, INDIRECT, CONSEQUENTIAL OR INCIDENTAL DAMAGES, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY, ARISING OUT OF THIS AGREEMENT, EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. (ii) THE TOTAL CUMULATIVE LIABILITY OF ASC TO ABB, ARISING FROM INTELLECTUAL PROPERTY INFRINGEMENT OR IN ANY WAY CONNECTED TO THE PERFORMANCE OR NONPERFORMANCE OF THIS AGREEMENT, WHETHER IN INTELLECTUAL PROPERTY INFRINGEMENT, CONTRACT, TORT (INCLUDING NEGLIGENCE OR STRICT LIABILITY) OR OTHERWISE FOR DAMAGE OR LOSS OF OTHER PROPERTY OR EQUIPMENT, LOSS OF PROFITS OR REVENUE, LOSS OF USE OF EQUIPMENT OR POWER SYSTEM, COST OF CAPITAL, COST OF PURCHASED OR REPLACEMENT POWER OR TEMPORARY EQUIPMENT (INCLUDING ADDITIONAL EXPENSES INCURRED IN USING EXISTING FACILITIES), CLAIMS OF CUSTOMERS OF ABB, SHALL NOT EXCEED THE FUNDING RECEIVED BY ASC FROM ABB.

ARTICLE 14

INSURANCE

14.1 REQUIREMENTS. ASC shall not commence the Work until it obtains, and shall maintain for the term of the Agreement insurance in the types and amounts required under this Article 14, or provides equivalent protection through an insurance program.

14.2 COVERAGE. ASC shall obtain and maintain the following insurance:

a) General Comprehensive Liability Insurance, including Contractual Liability Insurance covering all of ASC's obligations under this Agreement subject to a single aggregate policy limit of [**] per occurrence and [**] aggregate.

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b) Insurance or self insurance covering all of ASC's obligations under this Agreement regarding worker's compensation including employer's liability in an amount of [**] and/or all other insurance required by law in the jurisdiction in which the Work will be performed.

c) ASC shall require that its subcontractors carry worker's compensation including Employer's Liability and General Comprehensive Liability Insurance including Contractual Liability Insurance, in the amount of [**].

14.3 CHANGES. All commercial policies of insurance applied for or obtained to meet the requirement of this Agreement shall not be materially changed or canceled until thirty (30) days prior written notice has been given to ABB.

ARTICLE 15

TERMINATION

15.1 TERMINATION. This Agreement may be terminated, without cause and for its convenience, by ABB at any time upon ninety (90) days written notice to ASC, but in the event that ABB terminates for convenience prior to commercialization, the licenses granted to ABB under 7.4 shall also terminate. In full discharge of any payment obligations to ASC in respect of this Agreement and such termination, ABB shall pay for costs and noncancellable commitments incurred prior to the date of termination and fair closeout costs to be negotiated by the two parties, in accordance with Article 2. ASC shall take all reasonable steps to minimize termination costs.

15.2 If ABB fails to commit adequate funds to support the Work, and such failure results in a substantial reduction in the scope of the Work or a substantial extension of the period of performance, ASC may, by providing prompt notification of its election thereof to ABB, treat such failure as a termination by ABB pursuant to Subarticle 15.1 above, but this will only apply if ABB reduces its funding by twenty-five percent (25%) or greater as compared to the budget set forth in the schedule. Unless otherwise notified by ABB, ASC may carry forward any unexpended committed funds into succeeding contract years.

15.3 If ASC fails to commit adequate funds, and such failure results in a substantial reduction in the scope of the Work or a substantial extension of the period of performance, ABB may, by providing prompt notification of its election thereof to ASC, treat such failure as a termination by ASC, but this will only apply if ASC reduces

its funding by twenty-five percent (25%) or greater as compared to the budget set forth in the Schedule. If this Agreement terminates pursuant to this Subarticle 15.3, ABB shall not be obligated to make any further payments, beyond those due as of the date of termination, to ASC hereunder; any license granted to ABB pursuant to this Agreement shall continue; and, any license granted to ASC pursuant to this Agreement shall cease.

15.4 TERMINATION FOR BANKRUPTCY OR INSOLVENCY. ABB may terminate this Agreement by giving ten (10) days written notice to ASC if ASC files or has filed against it any petition in bankruptcy or any proceeding relating to insolvency, receivership, liquidation, or composition for the benefit of creditors, if that petition or proceeding is not dismissed within thirty (30) days after filing. Such termination shall be effective as of the tenth day following such notice. If ABB terminates this Agreement pursuant to this Subarticle 15.4, ABB shall not be obligated to make any further payments, beyond those due as of the date of termination, to ASC hereunder; any license granted to ABB pursuant to this Agreement shall continue; and, any license granted to ASC pursuant to this Agreement shall cease.

In the event ASC files for bankruptcy and a court of appropriate jurisdiction enters a final order authorizing ASC to reject this Agreement, ABB shall have the rights set forth in Section 365(n) of the Bankruptcy Code.

15.5 SURVIVAL. The provisions of Subarticle 2.6 (Audit Rights), Article 5 (Data), Article 6 (Computer Programs), Article 7 (Intellectual Property Rights), Article 9 (Confidentiality), Article 10 (Representations, Warranties and Covenants), Article 13 Indemnification and Limitation of Liability, Article 17 (Dispute Resolution) and Article 18 (Miscellaneous) shall survive completion or termination of this Agreement for any reason.

ARTICLE 16

NOTICES

Any notices or communications required or permitted under this Agreement shall be in writing and personally delivered or sent to the address of each party as set forth below, or to such other address as either party may substitute by written notice to the other in any manner expressly provided for herein.

a) Notices to ABB under this Agreement:

- 1) ABB Project Manager
ABB Power T&D Company Inc.
1021 Main Campus Drive
Raleigh, NC 27606

2) ABB Power T&D Company Inc.
Attn: Manager Business Development
1021 Main Campus Drive
Raleigh, NC 27606

(b) Notices to ASC under this Agreement:
American Superconductor Corporation
Attn: Chief Financial Officer
Two Technology Drive
Westborough, MA 01581

ARTICLE 17

DISPUTE RESOLUTION

17.1 MEDIATION. If a dispute arises out of or relates to this Agreement, or any breach thereof, and if such dispute cannot be settled through direct negotiation between the parties, and if the parties mutually agree, the parties shall submit the dispute to mediation with a mediator to be mutually agreed upon by the parties. The mediation may be initiated by the written request of either party and sent to the other party and shall commence within fifteen (15) days of receipt of such notice, unless otherwise agreed by the parties. In the event the parties fail to mutually agree on mediation procedures or if the mediation fails to resolve any dispute, either party may enforce its rights in a court of competent jurisdiction.

17.2 Each party shall bear its own expense of such mediation proceedings, unless otherwise agreed by the parties.

ARTICLE 18

MISCELLANEOUS

18.1 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts, without reference to conflicts of law principles.

18.2 ASSIGNMENT. Except to accomplish the sale or transfer of a business unit or division, or sale or reorganization of either party, this Agreement may not be assigned, in whole or in part, by either party without the prior written consent of the other party which consent shall not be unreasonably withheld.

18.3 BENEFIT. Subject to Subarticle 18.2 above, this Agreement is binding upon and shall inure to the benefit of the parties hereto, their representatives, successors and permitted assigns.

18.4 WAIVER. No failure or successive failures on the part of either party, its successors or assigns, to enforce any covenant or agreement, and no waiver or successive waivers on its or their part of any condition of this Agreement shall operate as a discharge of such covenant, agreement, or condition, or render the same invalid, or impair the right of either party, its successors and assigns, to enforce the same in the event of any subsequent breach or breaches by the other party hereto, its successors or assigns.

18.5 ENTIRE AGREEMENT. This Agreement constitutes the entire Agreement between the parties and supersedes all previous agreements and understandings relating to the Work, including any letter agreement between the parties. This Agreement may not be altered, amended, or modified except by a written instrument signed by the duly authorized representatives of both parties.

18.6 INDEPENDENT CONTRACTOR. ASC shall perform its obligations hereunder as an independent contractor and shall be solely responsible for its own financial obligations. Nothing contained herein shall be construed to imply a joint venture or principal and agent relationship between the parties and neither party shall have any right, power or authority to create any obligation, express or implied, on behalf of the other in connection with the performance hereunder.

18.7 ADDITIONAL OBLIGATIONS. At any time or from time to time on and after the Effective Date of this Agreement, ASC shall at the reasonable request of ABB (i) deliver to ABB such records, data or other documents consistent with the provisions of this Agreement, and (ii) execute, and deliver or use its reasonable efforts to cause to be delivered, all such assignments, consents, documents or further instruments of transfer or license, and (iii) take or cause to be taken all such other actions, as ABB may reasonably deem necessary or desirable in order for ABB to obtain the benefit of this Agreement and the transactions contemplated hereby.

18.8 WARRANTY DISCLAIMER. WITHOUT LIMITING ASC'S OBLIGATIONS PURSUANT TO ARTICLE(S) 10 AND 14 HEREIN, IN RECOGNITION THAT THE NATURE OF THE WORK INVOLVES RESEARCH AND DEVELOPMENT, ASC MAKES NO WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, BY STATUTE OR OTHERWISE, REGARDING THE WORK; AND ASC SPECIFICALLY DISCLAIMS ANY IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE AND ANY WARRANTIES FROM COURSE OF DEALING OR USAGE OF TRADE.

18.9 HEADINGS. The Article and Subarticle headings contained in this Agreement and in the Schedule and Exhibits hereto are for convenience of reference only and shall not in any way affect the meaning or interpretation of this Agreement, the Schedules or the Exhibits.

18.10 SEVERABILITY. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

18.11 FURTHER ASSURANCES. If, at any time, either party has reasonable grounds to believe that the other party may be unable to perform its obligations hereunder, the first party may in writing demand adequate assurance of due performance, and until it receives such assurance to its satisfaction it may suspend performance of its obligations hereunder.

18.12 EXPORT REGULATIONS. All technical data or commodities of United States origin made available directly or indirectly hereunder for use outside the United States shall be used subject to and in accordance with any applicable laws and regulations of the departments and agencies of the United States Government. The recipient of such technical data or commodities agrees not to re-export, directly or indirectly, any technical data of United States origin acquired from the Disclosing Party or any commodities using such data to any destination requiring United States Government approval for such re-export until a request for approval has been submitted to and granted by the United States Government.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized representatives.

ABB Transmission & Distribution
Technology Ltd.

American Superconductor Corporation

By: /s/ F. Gabella

By: /s/ G.J. Yurek

Print Name: F. Gabella

Print Name: G.J. Yurek

Title: Business Mgr.

Title: President

Date: Jan 2nd, 1998

Date: Jan. 2. 1998

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SCHEDULE TO THE AGREEMENT
BETWEEN
ABB AND ASC

1.0 STATEMENT OF WORK

1.1 The Statement of Work is attached hereto as Attachment A, which is hereby deemed incorporated and made an integral part of this Agreement.

2.0 PERIOD OF PERFORMANCE

Agreement will be for a four year period, covering April 1, 1997 through March 31, 2001.

3.0 BUDGET

The budget is set forth in this Article 3 and in Attachment B to this Schedule. The parties contemplate that the budget to perform the work will be [**].

3.1 ABB has paid ASC 0.3 MUSD towards the development outlined in this Agreement in calendar year 1996 and ABB will pay ASC; 1.75 MUSD in calendar year 1997; including 0.7 MUSD paid prior to April 1, 1997; [**] in calendar year 1998; [**] in calendar year 1999; and [**] in calendar year 2000, and [**] in calendar year 2001, for a total of 5.0 MUSD.

3.2 ASC will spend 5.0 MUSD total towards the development outlined in this Agreement in their Fiscal Years 1998, 1999, 2000 and 2001 with target levels of 0.625 MUSD in FY 1998, [**] in FY 1999, [**] in FY 2000, and [**] in FY 2001. Any spending below or above target in the first fiscal years may be compensated in subsequent fiscal years.

3.3 The Schedule of the development costs payable to ASC by ABB are detailed in Attachment B to this Schedule.

3.4 The parties contemplate that EDF will contribute 5.0 MUSD to the Work under the provisions of the Separate Agreement.

4.0 DELIVERABLES

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4.1 All deliverables identified in this Article 4 are to be made to ABB as specified by the ABB Project Manager.

4.2.1 Technical Progress Reports

ASC shall submit to the ABB Project Manager a technical progress report with respect to the Work at the PRB meetings.

4.2.2 Administrative/Financial Reports

The invoicing as identified in Article 3.1 of the Agreement shall serve as the Administrative/Financial Report; provided, however, upon request of the ABB Project Manager or the PRB, ASC shall provide to ABB or the PRB various estimates and forecasts as to the time and costs to complete the Work.

4.3 Prototype Conductor Milestones (1)

The milestones may be modified in preliminary design review for the [**] transformers. All values listed are minimum performance requirements with [**]. AC loss values are determined by [**] unless otherwise specified.

4.3.1 [**] GENERATION [**]: feasibility demonstrated in [**] with the following combined characteristics:

1. [**] at [**] and in [**] to plane.
2. [**] at [**] and in [**] to plane.
3. [**] and operating [**] total current [**] consistent with the above [**] specifications.

4.3.2 [**] GENERATION [**]: feasibility demonstrated in [**] with the following combined characteristics:

1. [**] at [**] and in [**] to plane.

- - - - -
 (1) SECTION 4.3 INCLUDES ASC CONFIDENTIAL INFORMATION UNDER THIS AGREEMENT.

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2. [**] at [**] and in [**] to plane.

3. [**] and operating [**] total current [**] consistent with the above [**] specification.

4.3.3 [**] GENERATION [**] : [**] process demonstrated with characteristics of 4.3.2.

4.3.4 [**] GENERATION [**]: feasibility demonstrated in [**] with the following combined characteristics:

1. [**] at [**] and in [**] to plane determined by a [**] measurement.

2. [**] at [**] and in [**] to plane determined by a [**] measurement.

3. [**] and operating [**] total current [**] consistent with the above [**] specifications.

4.3.5 [**] GENERATION [**]: [**] completed and first production [**] with 4.3.2 specs supplied to ABB.

4.3.6 [**] GENERATION [**]: [**] completed and [**] with 4.3.4 specs supplied to ABB.

4.3.7 [**] GENERATION [**]: feasibility demonstrated in [**] with the following combined characteristics:

1. AC loss 0.25 mW/Am at [**] and in [**] to plane.

2. [**] and operating [**] total current [**] consistent with the above [**] specification.

3. [**] resistivity [**] rated current.

4.3.8 [**] GENERATION [**]: [**] process demonstrated with the characteristics of 4.3.7.

4.3.9 [**] GENERATION [**]: feasibility demonstrated in [**] with the following combined characteristics:

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1. [**] at [**] and in [**] to plane.

2. [**] and operating [**] total current [**] consistent with above [**] specification.

3. [**] resistivity [**] rated current.

4.3.10 [**] GENERATION [**]: [**] available from [**], with characteristics of 4.3.7.

4.3.11 [**] GENERATION [**]: [**] completed and [**] piece length with 4.3.9 specs supplied to ABB.2.

4.4 Development Documentation

To be developed by the PRB

4.4.1 Conductor Requirement Specifications

4.4.2 Conductor Design Specifications

4.4.3 Test Plan

4.4.4 Test Analysis Report

5.0 INVOICING

All invoicing shall make reference to this Agreement by Number and shall be mailed to ABB at the following address:

ABB Power T&D Company Inc.
Electric Systems Technology Institute
Attention: Accounts Payable
1021 Main Campus Drive
Raleigh, NC 27606

6.0 PROJECT MANAGERS

- a) ABB designates Dr. Steinar Dale as ABB Project Manager
- b) ASC designates Dr. Alex Malozemoff as ASC Project Manger

7.0 AGREEMENT WITH EMPLOYEES

a) There are no items specifically listed.

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ATTACHMENT A
TO AGREEMENT BETWEEN ASC AND ABB
ASC STATEMENT OF WORK FOR HTS TRANSFORMER WIRE
DEVELOPMENT AND DEMONSTRATION

Wire [**] will be developed in the context of several designs being considered for an HTS transformer. The two main types of wires include 1) [**] wire with [**] and [**] for use in the [**] of the [**] and 2) an [**] with [**] for use [**] of the [**]. [**] may also be used throughout the [**]. Critical program wire performance issues include (i) [**] and [**], (ii) achieving the [**] under [**], (iii) [**] within [**], (iv) achieving [**] in the [**], and (v) achieving an architecture with [**] during a [**].

The general HTS wire development process proceeds in three stages: first, a feasibility stage using [**]; second, a process development stage for [**]; and third, a scaleup for [**]. After feasibility, each [**] stage has an anticipated duration of approximately [**]. This program proposes to [**] this development process for a [**] prototype by using [**] throughout the entire [**], and to enable a [**] which will incorporate [**].

Through the course of the program, several generations of wire with increasingly advanced specifications (summarized in 4.3) are identified as Generation [**], with Generation [**] referring to a [**] (not taken beyond feasibility), Generation [**] referring to the level required for the [**], and Generation [**] referring to the level required for [**]. This program covers feasibility and [**] for HRS and AC wire types and for all different generations of both [**] of Generation [**] AC wire (Generation [**] is not specified) which is excluded. [**] and [**] of [**] is contingent on funding and a specific separate program for a [**]. [**] of any of the wires is also outside the bounds of the program, except for [**], which is included. These program elements and their anticipated time periods are summarized in the attached Gantt chart.

The anticipated commercial price target, averaged over the [**], is [**].

The Wire Development Program is divided into four major segments: [**], with the [**]. Major milestones are listed in Section 4.3 of the Schedule. All fields, currents, and voltages are [**] (unless otherwise specified). Generation [**] conductor specifications will be reviewed by [**] in the light of Generation [**] milestone status and [**] requirements.

HRS [**] DEVELOPMENT:

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HRS [**] will build on the [**], with either a [**] to [**] indicated in the Schedule, Section 4.3. [**] may need to be considered depending on the design established in the [**], and [**] for this task needs to be determined.

Task 1. HRS GEN [**] FEASIBILITY. A baseline [**] for a [**] will be developed and demonstrated in [**], with Generation [**] as in the Schedule, Section 4.3.7 [**]; and [**] rated current). Both [**] approaches to increase the [**] will be investigated.

Task 2. HRS. [**] Subject to positive results on [**] of [**] from Task 14, the feasibility of [**], consistent with [**] established by ABB by [**], will be tested at ASC [**]. Samples will also be provided to ABB for test. [**] beyond feasibility will be negotiated based on the results of this task.

Task 3. HRS GEN [**]. A [**] with the [**] and the other HTS Gen [**] will be developed in [**], starting in [**] to the [**] of Task 1 and completed by [**]. Issues of [**] will be addressed.

Task 4. HRS GEN [**]. The [**] of Task 1 will be developed for [**] and combined with the [**] of Task 3, to demonstrate by [**] with the Generation [**].

Task 5. HRS GEN [**] A [**] of Generation [**] will be established, culminating with the delivery of a [**] to ABB by [**]. Additional delivery of this [**] for the [**] will then continue after [**] outside the bounds of this program.

Task 6. HRS GEN [**] FEASIBILITY. Generation [**] will be developed in [**] meeting Section 4.3.9 specs of the Schedule ([**], and [**]), for a feasibility milestone by [**].

Task 7. HRS GEN [**] The Generation [**] will be developed [**], addressing [**] issues. The first [**] length will be delivered to ABB by [**]. Delivery of this [**] in production quantities will require [**] and will continue after [**] outside the bounds of this program for [**].

[**] DEVELOPMENT:

[**] requires [**].

Task 8. AC GEN [**] FEASIBILITY. [**] with Generation [**] specs of Section 4.3.1 of the Schedule ([**]) will be developed via a [**] approach. Feasibility will be demonstrated in [**].

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Task 9. AC GEN [**] FEASIBILITY. [**] with Generation [**] specs of Section 4.3.2 of the Schedule ([**]) will be developed via [**] in the [**] and [**] by cabling. Feasibility will be demonstrated in [**] by [**] .

Task 10. AC GEN [**]. [**] of the Generation [**] of Task 9 will begin on [**] and provide a [**] for delivery to ABB by [**]. Scale-up for pilot production will occur after [**]. This task is [**] on [**] such as that from the [**], and on a targeted prototype which requires AC Gen [**].

Task 11. AC GEN [**] FEASIBILITY. [**] with Generation 2 [**] of Section 4.3.4 of the Schedule ([**]) will be developed via [**] in the [**] and achieving [**] in Task 13. Feasibility will be demonstrated in [**].

Task 12. AC GEN [**]. [**] of the Generation [**] of Task 8 will begin on [**] and provide a [**] to ABB by [**]. Scale-up for commercial production will occur after [**], [**] of this program.

CABLING:

Task 13. [**] DEVELOPMENT: This task will target [**] of HRS and/or [**] as needed to meet the total current requirements of the Gen [**] specs. In particular, [**] is expected to be required for reaching the [**] by [**] for Gen [**] and by [**] for Gen [**].

CHARACTERIZATION AND TEST:

These studies will be done in close collaboration with ABB and EDF.

Task 14. [**] FEASIBILITY TESTING. An early task will focus on demonstrating [**] in HRS [**]. This will start with [**] in applied field. Experiments comparing [**] will be conducted in collaboration with ABB. A first milestone for these experiments is targeted for [**]. [**] for the [**] will be agreed upon with ABB. If adequately [**] are obtained in these first round tests, such studies will be extended to HRS [**] and [**], with a milestone for establishing [**] by [**]. Specs for, and basic approach to, HRS [**] development will be reviewed upon the completion of this milestone.

Task 15. [**] TESTING. [**] techniques for [**] will be established for [**] and [**] will be established to monitor ongoing [**].

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Task 16. [**] TESTING. [**] will be constructed and measured for [**] to access [**] for all generations of HRS and [**] as soon as [**] become available. These tests will confirm [**] in the [**]. Also tests of [**] in HRS and [**] will be conducted.

Task 17. [**] TESTING. [**] tests, both [**] of HRS and [**] will be conducted as different generations become available. Specs will be established based on [**] design and manufacturing requirements, including [**] and [**] .

Task 18. PROGRAM MANAGEMENT. The technical program will be managed via an ASC program manager in accordance with this agreement.

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ATTACHMENT B: SCHEDULE OF ABB DEVELOPMENT COSTS:

	YEAR	ABB PAYMENT TO ASC	ASC FISCAL YEAR
A1.	1996	0.3 MUSD	
	Qtr. 4 1996	0.3 MUSD	1997
A2.	1997	1.75 MUSD	
	Qtr. 1 1997	0.70 MUSD	1997
	Qtr. 2 1997	0.35 MUSD	1998
	Qtr. 3 1997	0.35 MUSD	1998
	Qtr. 4 1997	0.35 MUSD	1998
A3.	1998	[**]	
	Qtr. 1 1998	[**]	1998
	Qtr. 2 1998	[**]	1999
	Qtr. 3 1998	[**]	1999
	Qtr. 4 1998	[**]	1999
A4.	1999	[**]	
	Qtr. 1 1999	[**]	1999
	Qtr. 2 1999	[**]	2000
	Qtr. 3 1999	[**]	2000
	Qtr. 4 1999	[**]	2000
A5.	2000	[**]	
	Qtr. 1 2000	[**]	2000
	Qtr. 2 2000	[**]	2001
	Qtr. 3 2000	[**]	2001
	Qtr. 4 2000	[**]	2001
A6.	2001	[**]	2001

TOTAL ABB PAYMENTS TO ASC FOR 1996-2001; 5 MUSD

ATTACHMENT C: PROJECT REVIEW BOARD

1- The PRB shall be composed of 2 representatives of each party, with the possibility of inviting specialists whenever required by the complexity of any item to be discussed.

2- The PRB has the duty of:

2.1 agreeing to any changes to the scope of the Statement of Work set forth in Attachment A, including changes in any specific targets to be achieved or any time limits.

2.2 monitoring performance against the Statement of Work, and setting up check points for the critical results to be achieved.

2.3 recommending action as required to achieve the objectives of the Agreement, including change of scope if convenient in the light of new developments in the field.

2.4 monitoring cost of the work and advising the Joint Steering Committee of ABB and ASC of any change with respect to the original plan.

3- At least one of the ABB representatives shall be a person with significant involvement in R&D on superconductivity.

One of the ASC representatives shall be the person responsible for the implementation in ASC of the Statement of Work.

4- The PRB shall meet quarterly, and shall have access to the necessary technical and financial documentation, which shall be provided by the Parties before the meeting.

5- The decisions of the PRB shall be taken unanimously. In case of failure to agree, the relevant matter shall be submitted to the Joint Steering Committee of ABB and ASC for final decision.

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ATTACHMENT D: ACS/EDF AGREEMENT, ARTICLE 4: PAY-BACK

4.3 ROYALTIES. For [**] from [**] of HTS commercial conductors by ASC for transformers, ASC will pay to EDF a royalty of [**] on [**] HTS [**] sales. For the purpose of this royalty calculation, sales for the [**] as described under Article 4.4 will be excluded. For the purpose of this royalty calculation, sales to ABB will be excluded the [**] and included after [**] and until [**] from the [**] of HTS [**] by ASC for transformers.

4.4 COMMERCIAL DISCOUNTS. In recognition of EDF's contribution to the development of HTS conductors for transformers, ASC undertakes to sell any AC and HRS conductor developed by ASC under this Agreement, which is to be used in HTS transformers designated for and sold in the [**] to the manufacturers of these transformers at pricing not to exceed to the one proposed to ABB under ASC's agreement with ABB on development of AC and HRS HTS wire. The current price discount to ABB amounts to a [**] price discount from the lowest commercial price available from ASC for similar quantities for any AC and HRS HTS conductors developed by ASC under this Agreement, or any HTS conductor originating from the Work, and this discount shall not be taken into consideration in determining the lowest commercial price. When a HTS transformer is commissioned for use in the [**], EDF will notify ASC. It is agreed that ASC shall have no right to influence any negotiation between EDF and any transformer manufacturer.

The definition of a commercial conductor sale under this Agreement is sale of HRS or AC wire which is applicable to a High Temperature Superconducting Transformer which is either the [**] in the [**] of [**] HTS transformers, or the [**] in the [**] HTS transformers, whichever is sold first.

The above-mentioned discount will apply during [**] from the [**] of HTS commercial conductors for HTS transformers by one of these designated manufacturers.

Subsidiaries

1. American Superconductor Europe GmbH (*) - established in Germany
2. ASC Holding Corp. (*) - incorporated in Delaware
3. ASC Securities Corp. (**) - incorporated in Massachusetts
4. Superconductivity, Inc. (*) - incorporated in Delaware

* Wholly owned subsidiary of American Superconductor Corporation

** Wholly owned subsidiary of ASC Holding Corp.

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements of American Superconductor Corporation on Form S-8 (File Nos. 33-44962, 33-44963, 33-64832, 33-74418, 33-86106, 33-86108, 333-39653, and 333-37163) of our report dated May 8, 1998, on our audits of the consolidated financial statements of American Superconductor Corporation as of March 31, 1998 and 1997, and for each of the three years in the period ended March 31, 1998, which report is included in the Form 10-K of American Superconductor Corporation.

/s/ Coopers & Lybrand L.L.P.

Coopers & Lybrand L.L.P.
Boston, Massachusetts
June 25, 1998

SMITH & GESTELAND, LLP
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CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation of our report dated February 7, 1997, on our audit of the consolidated 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 10K into the Company's previously filed Registration Statements on Form S-8 (file numbers 33-44962, 33-44963, 33-64832, 33-74418, 33-86106, 33-86108, 333-37163 and 333-39653).

Madison, Wisconsin
June 25, 1998

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

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

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, 333-39653, 333-37163) 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 10K for the fiscal year ended March 31, 1998, filed by American Superconductor Corporation with the Securities and Exchange Commission.

/s/ Ernst & Young LLP

Ernst & Young LLP

Milwaukee, Wisconsin
June 24, 1998

5
1,000
U.S. DOLLARS

YEAR		
	MAR-31-1998	
	APR-01-1997	
	MAR-31-1998	
	1	1,842
	6,167	
	2,992	
	0	
	3,230	
	8,609	15,429
	(11,007)	
	19,551	
3,550		0
0		0
	0	118
	12,741	
19,551		
	5,013	
15,129		4,603
	14,333	
13,551		
0		
239		
(12,378)		
	0	
(12,378)		
	0	
	0	
	0	
	(12,378)	
	(1.06)	
	(1.06)	