

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For The Quarter Ended: September 30, 2001

Commission File Number 0-19672

American Superconductor Corporation

(Exact name of registrant as specified in its charter)

Delaware

State or other jurisdiction of
organization or incorporation)

04-2959321

(I.R.S. Employer Identification Number)

Two Technology Drive
Westborough, Massachusetts 01581

(Address of principal executive offices, including zip code)

(508) 836-4200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO _____

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

Common Stock, par value \$.01 per share

20,459,219

Class

Outstanding as of November 13, 2001

AMERICAN SUPERCONDUCTOR CORPORATION

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AMERICAN SUPERCONDUCTOR CORPORATION
Consolidated Balance Sheets

	September 30, 2001	March 31, 2001
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 61,697,409	\$ 89,063,299
Accounts receivable	10,480,296	13,416,068
Inventory	18,023,708	14,300,928
Prepaid expenses and other current assets	599,931	603,744
	-----	-----
Total current assets	90,801,344	117,384,039
Property and equipment:		
Land	4,144,611	4,138,104
Construction in progress - building and equipment	58,720,200	23,285,351
Equipment	29,166,108	26,667,800
Furniture and fixtures	2,315,910	2,225,296
Leasehold improvements	4,767,462	4,741,947
	-----	-----
	99,114,291	61,058,498
Less: accumulated depreciation	(20,948,585)	(18,746,317)
	-----	-----
Property and equipment, net	78,165,706	42,312,181
Long-term marketable securities	44,712,302	71,161,804
Long-term accounts receivable	1,000,000	1,250,000
Long-term inventory	3,787,000	3,787,000
Goodwill	1,107,735	1,107,735
Other assets	3,383,751	2,924,153
	-----	-----
Total assets	\$ 222,957,838	\$ 239,926,912
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 8,789,260	\$ 8,576,022
Deferred revenue	243,452	-
	-----	-----
Total current liabilities	9,032,712	8,576,022
Long-term deferred revenue	3,787,000	3,787,000
Commitments		
Stockholders' equity:		
Common stock, \$.01 par value		
Authorized shares-50,000,000; issued and outstanding		
- 20,376,214 and 20,290,596 at September 30, 2001 and		
March 31, 2001, respectively	203,762	202,906
Additional paid-in capital	356,577,492	355,843,848
Deferred compensation	(371,232)	(424,266)
Deferred warrant costs	(225,540)	(336,347)
Accumulated other comprehensive income (loss)	606,068	769,641
Accumulated deficit	(146,652,424)	(128,491,892)
	-----	-----
Total stockholders' equity	210,138,126	227,563,890
	-----	-----
Total liabilities and stockholders' equity	\$ 222,957,838	\$ 239,926,912
	=====	=====

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

AMERICAN SUPERCONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Six Months Ended September 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
Revenues:				
Contract revenue	\$ 704,671	\$ 694,556	\$ 1,294,100	\$ 1,394,988
Product sales and prototype development contracts	2,552,028	4,022,948	3,621,408	7,246,854
Total revenues	----- 3,256,699	----- 4,717,504	----- 4,915,508	----- 8,641,842
Costs and expenses:				
Costs of revenue-contract revenue	696,940	688,045	1,282,835	1,386,437
Costs of revenue-product sales and prototype development contracts	2,682,453	2,840,019	4,378,135	5,760,199
Research and development	6,724,289	6,030,797	13,459,124	11,338,140
Selling, general and administrative	3,626,385	3,715,354	7,340,948	6,670,225
Total costs and expenses	----- 13,730,067	----- 13,274,215	----- 26,461,042	----- 25,155,001
Interest income	1,356,146	3,499,307	3,173,072	6,993,730
Other income (expense), net	1,008	12,480	211,930	17,727
Net loss	----- \$ (9,116,214) =====	----- \$ (5,044,924) =====	----- \$ (18,160,532) =====	----- \$ (9,501,702) =====
Net loss per common share	----- \$ (0.45) =====	----- \$ (0.25) =====	----- \$ (0.89) =====	----- \$ (0.47) =====
Weighted average number of common shares outstanding	----- 20,375,836 =====	----- 20,151,987 =====	----- 20,353,930 =====	----- 20,019,403 =====

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

AMERICAN SUPERCONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2001 -----	2000 -----	2001 -----	2000 -----
Net loss	\$(9,116,214)	\$(5,044,924)	\$(18,160,532)	\$(9,501,702)
Other comprehensive income (loss)				
Foreign currency translation	14,388	(17,625)	13,041	(17,789)
Unrealized gains (losses) on investments	60,520 -----	488,667 -----	(176,614) -----	325,183 -----
Other comprehensive income (loss)	74,908	471,042	(163,573)	307,394
Comprehensive income (loss)	\$(9,041,306) =====	\$(4,573,882) =====	\$(18,324,105) =====	\$(9,194,308) =====

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

AMERICAN SUPERCONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended September 30,	
	2001 ----	2000 ----
Cash flows from operating activities:		
Net loss	\$(18,160,532)	\$ (9,501,702)
Adjustments to reconcile net loss to net cash used by operations:		
Depreciation and amortization	2,479,210	1,577,990
Deferred compensation expense	53,034	53,034
Deferred warrant costs	137,452	177,259
Stock compensation expense	11,843	87,398
Changes in operating asset and liability accounts:		
Accounts receivable	3,185,772	(4,747,733)
Inventory	(3,722,780)	(2,950,448)
Prepaid expenses and other current assets	3,813	(328,874)
Accounts payable and accrued expenses	213,238	673,276
Deferred revenue - current and long-term	243,452	1,802,340
	-----	-----
Total adjustments	2,605,034	(3,655,758)
Net cash used by operating activities	(15,555,498)	(13,157,460)
Cash flows from investing activities:		
Purchase of property and equipment (net)	(38,042,752)	(9,561,224)
Purchase of long-term marketable securities	-	(55,874,482)
Sale of long-term marketable securities	26,272,888	-
Purchase of assets of Integrated Electronics, LLC	-	(755,000)
Increase in other assets	(736,540)	(416,210)
	-----	-----
Net cash used in investing activities	(12,506,404)	(66,606,916)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	696,012	4,922,537
	-----	-----
Net cash provided by financing activities	696,012	4,922,537
Net decrease in cash and cash equivalents	(27,365,890)	(74,841,839)
Cash and cash equivalents at beginning of period	89,063,299	126,917,768
	-----	-----
Cash and cash equivalents at end of period	\$ 61,697,409	\$ 52,075,929
	=====	=====
Supplemental schedule of cash flow information:		
Noncash issuance of common stock	\$ 64,877	\$ 1,218,557

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

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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1. Nature of the Business:

 American Superconductor Corporation (the "Company"), which was formed on April 9, 1987, is a world leader in developing and manufacturing products using superconducting materials and power electronic converters for electric power applications. The focus of the Company's development and commercialization efforts is on electrical equipment for use by electric utilities and industrial and commercial users of electrical power. For large-scale applications, the Company's development efforts are focused on high temperature superconducting ("HTS") power transmission cables and electric motors and generators. In the area of industrial power quality and transmission network power reliability, the Company is focused on marketing and selling commercial superconducting magnetic energy storage ("SMES") devices, on development and commercialization of new SMES products, and on development of power electronic subsystems. The Company operates in two business segments.

The Company currently derives a substantial portion of its revenue from research and development contracts. A significant portion of this contract revenue relates to a development contract with Pirelli Cables and Systems ("Pirelli"), who (through an affiliated company) is a stockholder of the Company.

Costs of revenue include research and development and selling, general and administrative expenses that are incurred in the performance of these development contracts.

Research and development and selling, general and administrative expenses included as costs of revenue were as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2001	2000	2001	2000
	----	----	----	----
Research and development expenses	\$1,689,252	\$1,117,402	\$2,913,159	\$2,455,773
Selling, general and administrative expenses	\$ 448,070	\$ 311,446	\$ 887,871	\$ 751,240

2. Basis of Presentation:

 The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles. Certain information and footnote disclosure normally included in the Company's annual consolidated financial statements have been condensed or omitted. The interim consolidated financial statements, in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results for the interim periods ended September 30, 2001 and 2000 and the financial position at September 30, 2001.

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS, Continued

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The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the fiscal year. It is suggested that these interim consolidated financial statements be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2001 which are contained in the Company's Annual Report on Form 10-K covering the year ended March 31, 2001.

Effective April 1, 2001, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," and has ceased amortizing the goodwill recorded as a result of the acquisition of substantially all the assets of Intergrated Electronics, LLC ("IE") on June 1, 2000. The Company reviews its goodwill and other long-term assets at least annually or when events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. If the carrying amount of the asset is determined to exceed its fair value, an impairment loss would be recognized.

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

3. Net Loss Per Common Share:

The Company follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share" which 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 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 three months ended September 30, 2001 and 2000, common equivalent shares of 2,622,421 and 1,976,674 were not included for the calculation of diluted EPS as their effect was antidilutive. For the six months ended September 30, 2001 and 2000, common equivalent shares of 2,819,430 and 2,230,780 were also not included for the calculation of diluted EPS as their effect was antidilutive.

4. Cost-Sharing Agreements:

The Company received approximately \$200,000 in funding under a government cost-sharing agreement in the three months ended September 30, 2001. The Company did not receive funding under government cost-sharing agreements for the three months ended September 30, 2000. For the six months ended September 30, 2001 and 2000, government cost-sharing funding was \$319,000 and \$194,000, respectively. This funding was used to directly offset research and development and selling, general and administrative expenses.

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS, Continued

5. Business Segment Information:

The Company has two reportable business segments as defined by SFAS 131- High Temperature Superconducting ("HTS") business segment and the Power Quality and Reliability ("PQ&R") business segment.

The HTS business segment develops and commercializes HTS wire, wire products and systems. The focus of this segment's development effort is on HTS wire for power transmission cables and electric motors and generators.

The PQ&R business segment is focused on marketing and selling commercial low temperature SMES devices, on development and commercialization of new SMES products, and on development and commercialization of power electronic converters.

The operating segment results for the HTS and PQ&R business segments were as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2001	2000	2001	2000
Revenues				
HTS	\$ 2,182,629	\$ 1,414,204	\$ 3,809,251	\$ 3,194,937
PQ&R	1,074,070	3,303,300	1,106,257	5,446,905
Total	\$ 3,256,699	\$ 4,717,504	\$ 4,915,508	\$ 8,641,842

	Three Months Ended September 30,		Six Months Ended September 30,	
	2001	2000	2001	2000
Operating Income (loss)				
HTS	\$ (6,961,422)	\$(6,880,179)	\$(14,078,936)	\$(12,808,494)
PQ&R	(2,888,797)	(1,341,600)	(6,461,357)	(3,034,090)
Unallocated Corporate Expenses	(623,149)	(334,932)	(1,005,241)	(670,575)
Total	\$(10,473,368)	\$(8,556,711)	\$(21,545,534)	\$(16,513,159)

AMERICAN SUPERCONDUCTOR CORPORATION

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS, Continued

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The segment assets for the HTS and PQ&R business segments were as follows:

	September 30, 2001	March 31, 2001
	-----	-----
HTS	\$ 85,921,167	\$ 48,501,903
PQ&R	30,626,960	31,199,906
Corporate cash and marketable securities	106,409,711	160,225,103
	-----	-----
Total	\$222,957,838	\$239,926,912
	=====	=====

The accounting policies of the business segments are the same as those described in Note 2, except that certain corporate expenses which we do not believe are specifically attributable or allocable to either business segment have been excluded from the segment operating losses.

6. New Accounting Pronouncements:

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. SFAS 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination, whether acquired individually or with a group of other assets, and the accounting and reporting for goodwill and other intangibles subsequent to their acquisition. These standards require all future business combinations to be accounted for using the purchase method of accounting. Goodwill will no longer be amortized but instead will be subject to impairment tests at least annually. The Company has adopted SFAS 142 and has discontinued the amortization of goodwill as of April 1, 2001. Certain provisions of SFAS 141 may also apply to any acquisitions concluded subsequent to June 30, 2001.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of." SFAS 144 applies to all long-lived assets (including discontinued operations) and consequently amends Accounting Principles Board Opinion No. 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business." SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001, and thus becomes effective for the Company on April 1, 2002. Management believes the future impact on our financial statements as a result of this interpretation will be immaterial.

AMERICAN SUPERCONDUCTOR CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS FOR THE
SIX MONTHS ENDED SEPTEMBER 30, 2001

American Superconductor Corporation was founded in 1987. We are focused on developing, manufacturing and selling products using two core technologies: high temperature superconductor ("HTS") wires and power electronic converters for electric power applications. We also assemble superconductor wires and power electronic converters into fully-integrated products, such as superconducting magnetic energy storage ("SMES") systems and ship propulsion motors, which we sell to end users.

We derive our revenues from contracts to perform research and development, product sales and prototype development contracts. We recognize revenues from our research and development and prototype development contracts based on the percentage of completion method measured by the relationship of costs incurred to total contract costs. We recognize revenues from product sales upon shipment, installation or acceptance, where applicable, or for some programs, on the percentage of completion method of accounting.

Results of Operations

Total revenues during the three months ended September 30, 2001 were \$3,257,000, compared to \$4,718,000 for the same period a year earlier. For the six months ended September 30, 2001, revenues were \$4,916,000 as compared to \$8,642,000 for the comparable period in 2000. Revenues for the quarter and six-month period decreased by \$1,461,000 and \$3,726,000, respectively, compared to the same prior-year periods. The decrease in revenue resulted from fewer SMES system sales. Power Quality and Reliability business segment sales, which include SMES systems and power electronic switches, were \$1,074,000 in the current quarter, compared to \$3,303,000 during the second quarter of last year, a decrease of \$2,229,000. Power Quality and Reliability sales for the recent six-month period were \$1,106,000, compared to \$5,447,000 recorded during the first six months of last year, a decrease of \$4,341,000. These decreases were partially offset by increases in HTS business segment revenues of \$768,000 and \$615,000 for the quarter and six-month periods ended September 30, 2001, respectively, compared to the same prior-year periods, due to higher prototype development contract revenue from the U.S. Navy.

For the three months ended September 30, 2001, we recorded approximately \$200,000 in funding under a government cost-sharing agreement with the U.S. Air Force. For the three months ended September 30, 2000, we did not record any funding under cost-sharing agreements. For the six months ended September 30, 2001, funding under government cost-sharing agreements was \$319,000, compared to \$194,000 for the comparable period in 2000. We anticipate that a portion of our funding in the future will continue to come from cost-sharing agreements as we continue to develop joint programs with government agencies. Funding from government cost-sharing agreements is recorded as an offset to research and development and selling, general and administrative expenses, as required by government contract accounting guidelines, rather than as revenues.

Total costs and expenses for the three months ended September 30, 2001 were \$13,730,000 compared to \$13,274,000 for the same period last year. Total costs and expenses for the first six

AMERICAN SUPERCONDUCTOR CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS FOR THE
SIX MONTHS ENDED SEPTEMBER 30, 2001

months of the current fiscal year were \$26,461,000, compared to \$25,155,000 for the same period last year. The increase in costs and expenses was primarily the result of our increased investment in research and development, partially offset by reduced costs of revenue associated mainly with the lower level of SMES system sales.

Adjusted research and development ("R&D") expenses, which include amounts classified as costs of revenue and amounts offset by cost sharing funding, increased to \$8,517,000 in the three months ended September 30, 2001 from \$7,148,000 for the same period of the prior year. For the six-month periods ended September 30, 2001 and 2000, adjusted research and development expenses were \$16,537,000 and \$13,894,000, respectively. These increases were due to the continued scale-up of our internal research and development activities, including the hiring of additional personnel and the purchases of materials and equipment, and higher spending on licenses, consultants and outside contractors. 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). Additionally, a portion of R&D expenses was offset by cost sharing funding. Net R&D expenses (exclusive of amounts classified as costs of revenues and amounts offset by cost sharing funding) increased to \$6,724,000 in the three months ended September 30, 2001 from \$6,031,000 for the same period last year. For the six months ended September 30, 2001 and 2000, these amounts were \$13,459,000 and \$11,338,000, respectively.

Our R&D expenditures are summarized as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2001	2000	2001	2000
	----	----	----	----
R&D expenses per Consolidated Statements of Operations	\$ 6,724,000	\$ 6,031,000	\$13,459,000	\$11,338,000
R&D expenditures on development contracts classified as Costs of revenue	1,690,000	1,117,000	2,913,000	2,456,000
R&D expenditures offset by cost sharing funding	103,000	0	165,000	100,000
	-----	-----	-----	-----
Adjusted R&D expenses	\$ 8,517,000	\$ 7,148,000	\$16,537,000	\$13,894,000
	=====	=====	=====	=====

Adjusted selling, general and administrative ("SG&A") expenses, which include amounts classified as costs of revenue and amounts offset by cost sharing funding, increased to \$4,171,000 for the three months ended September 30, 2001, compared to \$4,027,000 for the same period a year earlier. For the six-month periods ended September 30, 2001 and 2000, adjusted SG&A expenses were \$8,383,000 and \$7,515,000, respectively. These increases were primarily due to the hiring of additional personnel and related expenses incurred to support corporate development, marketing, and recruiting activities and future planned growth. A portion of the SG&A expenditures related to externally funded development contracts has been classified as costs of revenue (rather than as SG&A expenses). Additionally, a portion of SG&A expenses

AMERICAN SUPERCONDUCTOR CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS FOR THE
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was offset by cost sharing funding. Net SG&A expenses (exclusive of amounts classified as costs of revenue and amounts offset by cost sharing funding) were \$3,626,000 in the three months ended September 30, 2001 compared to \$3,715,000 for the same period last year. For the six months ended September 30, 2001 and 2000, these amounts were \$7,341,000 and \$6,670,000, respectively.

Our SG&A expenditures are summarized as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2001	2000	2001	2000
	----	----	----	----
SG&A expenses per Consolidated Statements of Operations	\$3,626,000	\$3,715,000	\$7,341,000	\$6,670,000
SG&A expenditures on development contracts classified as Costs of revenue	448,000	312,000	888,000	751,000
SG&A expenditures offset by cost sharing funding	97,000	0	154,000	94,000
	-----	-----	-----	-----
Adjusted SG&A expenses	\$4,171,000	\$4,027,000	\$8,383,000	\$7,515,000
	=====	=====	=====	=====

Interest income and other income (expense), net resulting primarily from investments in long-term marketable securities, was \$1,357,000 in the quarter ended September 30, 2001, compared to \$3,512,000 for the same period in the previous year. For the six months ended September 30, 2001 and 2000, these amounts were \$3,385,000 and \$7,011,000, respectively. These decreases in interest income reflect the lower cash balances available for investment as a result of cash being used to fund our operations and to purchase property, plant and equipment, as well as lower interest rates available on our investments. Other income (expense), net of \$212,000 in the six months ended September 30, 2001 consists primarily of investment gains from long-term marketable securities.

We expect to continue to incur operating losses in the next year, as we continue to devote significant financial resources to our research and development activities and commercialization efforts.

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

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

AMERICAN SUPERCONDUCTOR CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS FOR THE
SIX MONTHS ENDED SEPTEMBER 30, 2001

Liquidity and Capital Resources

At September 30, 2001, we had cash, cash equivalents and long-term marketable securities of \$106,410,000 compared to \$160,225,000 at March 31, 2001. The principal uses of cash during the six months ended September 30, 2001 were \$15,555,000 for the funding of our operations and \$38,043,000 for the acquisition of property, plant and equipment, primarily related to the construction in progress on our HTS manufacturing facility in Devens, Massachusetts.

Long-term accounts receivable of \$1,000,000 represents the amount due after September 30, 2002 on the \$2,500,000 recognized as revenue in the year ended March 31, 2000 for R&D work performed by us related to a development agreement with Pirelli. This amount is guaranteed by the agreement and is payable in installments over a five-year period ending September 30, 2004.

Goodwill of \$1,108,000 at September 30, 2001 represents the excess of the purchase price paid for the acquisition of substantially all of the assets of Integrated Electronics, LLC ("IE") on June 1, 2000, over the fair value of IE's assets, less amortization taken between June 1, 2000 and March 31, 2001. The IE transaction was accounted for under the purchase method of accounting. Goodwill was initially calculated to be \$1,329,000, and was amortized on a five-year schedule until March 31, 2001. Effective April 1, 2001 the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" and has ceased amortizing the goodwill acquired in the IE purchase. The Company reviews its goodwill and other long-term assets at least annually or when events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. If the carrying amount of the asset is determined to exceed its fair value, an impairment loss would be recognized in an amount equal to that excess.

We have potential funding commitments (excluding amounts included in accounts receivable) of approximately \$13,552,000 to be received after September 30, 2001 from strategic partners and government and commercial customers, compared to \$12,436,000 at March 31, 2001. However, these commitments, including \$3,363,000 on U.S. government contracts, are subject to certain cancellation provisions. Of the current commitment amount of \$13,552,000, approximately 52% is potentially collectable within the next 12 months.

To date, inflation has not had a material impact on our financial results.

New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 addresses the initial recognition and measurement of goodwill and other intangible

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS FOR THE
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assets acquired in a business combination. SFAS 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination, whether acquired individually or with a group of other assets, and the accounting and reporting for goodwill and other intangibles subsequent to their acquisition. These standards require all future business combinations to be accounted for using the purchase method of accounting. Goodwill will no longer be amortized but instead will be subject to impairment tests at least annually. The Company has adopted SFAS 142 and has discontinued the amortization of goodwill as of April 1, 2001. Certain provisions of SFAS 141 may also apply to any acquisitions concluded subsequent to June 30, 2001.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of." SFAS 144 applies to all long-lived assets (including discontinued operations) and consequently amends Accounting Principles Board Opinion No. 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business." SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001, and thus becomes effective for the Company on April 1, 2002. Management believes the future impact on our financial statements as a result of this interpretation will be immaterial.

Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk through derivative financial instruments and other financial instruments, such as investments in short-term marketable securities and long-term debt, is not material.

FUTURE OPERATING RESULTS

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

WE HAVE A HISTORY OF OPERATING LOSSES AND WE EXPECT TO CONTINUE TO INCUR LOSSES IN THE FUTURE.

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We have been principally engaged in research and development activities. We have incurred net losses in each year since our inception. Our net loss for fiscal 1999, fiscal 2000, fiscal 2001, and the first six months of fiscal 2002 was \$15,326,000, \$17,598,000, \$21,676,000, and \$18,161,000, respectively. Our accumulated deficit as of September 30, 2001 was \$146,652,000. We expect to continue to incur operating losses in the next year and there can be no assurance that we will ever achieve profitability.

THERE ARE A NUMBER OF TECHNOLOGICAL CHALLENGES THAT MUST BE SUCCESSFULLY ADDRESSED BEFORE OUR SUPERCONDUCTING PRODUCTS CAN GAIN WIDESPREAD COMMERCIAL ACCEPTANCE.

Many of our products are in the early stages of commercialization and testing, while others are still under development. We do not believe any company has yet successfully developed and commercialized significant quantities of HTS wire or wire products. There are a number of technological challenges that we must successfully address to complete our development and commercialization efforts. For example, we face engineering challenges in producing HTS wire in longer lengths and commercial quantities. We also believe that several years of further development in the cable and motor industries will be necessary before a substantial number of additional commercial applications for our HTS wire in these industries can be developed and proven. We may also need to improve the quality of our HTS wire to expand the number of commercial applications for it. We may be unable to meet such technological challenges. Delays in development, as a result of technological challenges or other factors, may result in the introduction of our products later than anticipated.

THE COMMERCIAL USES OF SUPERCONDUCTING PRODUCTS ARE VERY LIMITED TODAY, AND A WIDESPREAD COMMERCIAL MARKET FOR OUR PRODUCTS MAY NOT DEVELOP.

To date, there has been no widespread commercial use of HTS products. Although LTS products are currently used in several commercial applications, commercial acceptance of LTS products, other than for medical magnetic resonance imaging and superconducting magnetic energy storage products, has been significantly limited by the cooling requirements of LTS materials. Even if the technological hurdles currently limiting commercial uses of HTS and LTS products are overcome, it is uncertain whether a robust commercial market for those new and unproven products will ever develop. It is possible that the market demands we currently anticipate for our HTS and LTS products will not develop and that superconducting products will never achieve widespread commercial acceptance.

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WE EXPECT TO SPEND SIGNIFICANT AMOUNTS ON THE EXPANSION OF OUR MANUFACTURING CAPACITY, AND OUR EXPANSION PROJECTS MAY NOT BE SUCCESSFUL.

In anticipation of significantly increased demand for our products, we are currently building a facility exclusively dedicated to HTS wire manufacturing at the Devens Commerce Center in Devens, Massachusetts. During the current fiscal year, we plan to continue to use a large portion of the net proceeds from our March 2000 stock offering to fund the construction and purchase equipment for the new HTS wire manufacturing facility in Devens. We can only estimate the costs of this project, and the actual costs may be significantly in excess of our estimates. In addition, the completion of this new facility may be delayed, or we may experience start-up difficulties or other problems once the facility becomes operational. Finally, if increased demand for our products does not materialize, we will not generate sufficient revenue to offset the cost of establishing and operating the facility.

WE HAVE NO EXPERIENCE MANUFACTURING OUR HTS PRODUCTS IN COMMERCIAL QUANTITIES.

To be financially successful, we will have to manufacture our products in commercial quantities at acceptable costs while also preserving the quality levels achieved in manufacturing these products in limited quantities. This presents a number of technological and engineering challenges for us. We cannot assure you that we will be successful in developing product designs and manufacturing processes that permit us to manufacture our HTS products in commercial quantities at commercially acceptable costs while preserving quality. In addition, we may incur significant start-up costs and unforeseen expenses in our product design and manufacturing efforts.

WE HAVE HISTORICALLY FOCUSED ON RESEARCH AND DEVELOPMENT ACTIVITIES AND HAVE LIMITED EXPERIENCE IN MARKETING AND SELLING OUR PRODUCTS.

We have been primarily focused on research and development of our superconducting products. Consequently, our management team has limited experience directing our commercialization efforts, which are essential to our future success. To date, we only have limited experience marketing and selling our products, and there are very few people anywhere who have significant experience marketing or selling superconducting products. Once our products are ready for commercial use, we will have to develop a marketing and sales organization that will effectively demonstrate the advantages of our products over both more traditional products and competing superconducting products or other technologies. We may not be successful in our efforts to market this new and unfamiliar technology, and we may not be able to establish an effective sales and distribution organization.

We may decide to enter into arrangements with third parties for the marketing or distribution of our products, including arrangements in which our products, such as HTS wire, are included as a component of a larger product, such as a motor. We have entered into a marketing and sales

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alliance with GE Industrial Systems giving GE the exclusive right to offer our Distributed-SMES (D-SMES) product line in the United States to utilities and the right to sell industrial Power Quality-SMES (PQ-SMES) systems to certain of GE's global industrial accounts. By entering into marketing and sales alliances, the financial benefits to us of commercializing our products are dependent on the efforts of others. We may not be able to enter into marketing or distribution arrangements with third parties on financially acceptable terms, and third parties may not be successful in selling our products or applications incorporating our products.

WE DEPEND ON OUR STRATEGIC RELATIONSHIPS WITH OUR CORPORATE PARTNERS FOR THE SUCCESSFUL DEVELOPMENT AND MARKETING OF APPLICATIONS FOR OUR SUPERCONDUCTING PRODUCTS.

Our business strategy depends upon strategic relationships with corporate partners, which are intended to provide funding and technologies for our development efforts and assist us in marketing and distributing our products. Although we currently are party to a number of strategic relationships, we may not be able to maintain these relationships, and these relationships may not be technologically or commercially successful.

We have an agreement with Pirelli relating to HTS wire for cables used to transmit both electric power and control signals. In general, we are obligated to sell our HTS cable wire exclusively to Pirelli, and Pirelli is obligated to buy this HTS wire exclusively from us or to pay us royalties for any of this wire that it manufactures for use in these applications anywhere in the world other than Japan. Pirelli continues to provide us with substantial funding and has been critical in assisting us in the development and commercialization of HTS cable wire. Consequently, we are significantly dependent on Pirelli for the commercial success of this cable wire in these applications.

On July 30, 2001, Pirelli announced its intention to sell its energy cables business along with certain other businesses. While we expect to continue a strategic alliance with any acquirer of this energy cables business, we cannot assure you that any relationship will continue on the same terms as our current relationship with Pirelli. We also cannot assess how Pirelli's sale of this business will impact our ability to successfully produce and market HTS wire for cable.

As we move toward commercialization of several of our products, we plan to use strategic alliances as an important means of marketing and selling our products. We have entered into a marketing and sales alliance with GE giving GE the exclusive right to offer our D-SMES product line in the United States to utilities and the right to sell industrial PQ-SMES systems to certain of GE's global industrial accounts. Any strategic relationships established may not provide us with the commercial benefits we anticipate.

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OUR PRODUCTS FACE INTENSE COMPETITION BOTH FROM SUPERCONDUCTING PRODUCTS DEVELOPED BY OTHERS AND FROM TRADITIONAL, NON-SUPERCONDUCTING PRODUCTS AND ALTERNATIVE TECHNOLOGIES.

As we begin to market and sell our superconducting products, we will face intense competition both from competitors in the superconducting field and from vendors of traditional products and new technologies. There are many companies in the United States, Europe, Japan and Australia engaged in the development of HTS products, including Sumitomo Electric Industries, 3M, Intermagnetics General and Nordic Superconductor Technologies. The superconducting industry is characterized by rapidly changing and advancing technology. Our future success will depend in large part upon our ability to keep pace with advancing HTS and LTS technology and developing industry standards. Our SMES products compete with a variety of non-superconducting products such as dynamic voltage restorers ("DVRs"), static VAR compensators ("SVCs"), static compensators ("STATCOMS"), flywheels, power electronic switches and battery-based power supply systems. In addition, competition for our Power Modules includes products from Ecostar, Inverpower, Satcon, Semikron and Trace. Research efforts and technological advances made by others in the superconducting field or in other areas with applications to the power quality and reliability markets may render our development efforts obsolete. Many of our competitors have substantially greater financial resources, research and development, manufacturing and marketing capabilities than we have. In addition, as the HTS, power quality and power reliability markets develop, other large industrial companies may enter those fields and compete with us.

THIRD PARTIES HAVE OR MAY ACQUIRE PATENTS THAT COVER THE HIGH TEMPERATURE SUPERCONDUCTING MATERIALS WE USE OR MAY USE IN THE FUTURE TO MANUFACTURE OUR PRODUCTS.

We expect that some or all of the HTS materials and technologies we use in designing and manufacturing our products are or will become covered by patents issued to other parties, including our competitors. If that is the case, we will need either to acquire licenses to these patents or to successfully contest the validity of these patents. The owners of these patents may refuse to grant licenses to us, or may be willing to do so only on terms that we find commercially unreasonable. If we are unable to obtain these licenses, we may have to contest the validity or scope of those patents to avoid infringement claims by the owners of these patents. It is possible that we will not be successful in contesting the validity or scope of a patent, or that we will not prevail in a patent infringement claim brought against us. Even if we are successful in such a proceeding, we could incur substantial costs and diversion of management resources in prosecuting or defending such a proceeding.

THERE ARE NUMEROUS PATENTS ISSUED IN THE FIELD OF SUPERCONDUCTING MATERIALS AND OUR PATENTS MAY NOT PROVIDE MEANINGFUL PROTECTION FOR OUR TECHNOLOGY.

We own or have licensing rights under many patents and pending patent applications. However, the patents that we own or license may not provide us with meaningful protection of

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our technologies, and may not prevent our competitors from using similar technologies, for a variety of reasons, such as:

- . the patent applications that we or our licensors file may not result in patents being issued;
- . any patents issued may be challenged by third parties; and
- . others may independently develop similar technologies not protected by our patents or design around the patented aspects of any technologies we develop.

Moreover, we could incur substantial litigation costs in defending the validity of our own patents. We also rely on trade secrets and proprietary know-how to protect our intellectual property. However, our non-disclosure agreements and other safeguards may not provide meaningful protection for our trade secrets and other proprietary information.

OUR SUCCESS IS DEPENDENT UPON ATTRACTING AND RETAINING QUALIFIED PERSONNEL.

Our success will depend in large part upon our ability to attract and retain highly qualified research and development, management, manufacturing, marketing and sales personnel. Hiring those persons may be especially difficult due to the specialized nature of our business. In addition, the demand for qualified personnel is particularly acute in the New England and Wisconsin areas, where most of our operations are located, due to the currently low unemployment rate in these regions.

We are particularly dependent upon the services of Dr. Gregory J. Yurek, our co-founder and our Chairman of the Board, President and Chief Executive Officer, and Dr. Alexis P. Malozemoff, our Chief Technical Officer. The loss of the services of either of those individuals could significantly damage our business and prospects.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

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

At the Company's Annual Meeting of Stockholders held on July 27, 2001, the following proposals were adopted by the vote specified below.

Proposal	Votes for	Withheld Authority to Vote For Nominee
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1. Election of Directors		
Gregory J. Yurek	16,950,415	1,224,204
Albert J. Baciocco, Jr.	17,828,198	346,421
Frank Borman	17,827,074	347,545
Clayton M. Christensen	17,590,059	584,560
Peter O. Crisp	17,829,238	345,381
Richard Drouin	17,829,888	344,731
Gerard Menjon	15,121,304	3,053,315
Andrew G.C. Sage, II	17,827,538	347,081
John Vander Sande	17,451,981	722,638

	Votes For	Votes Against	Abstentions	Broker Non-Votes
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2. Ratification of Independent Auditors	18,083,114	66,150	25,355	None

Please see the Company's Proxy Statement filed with the Commission in connection with this Annual Meeting for a description of the matters voted upon.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

None

SIGNATURES

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

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11/14/01	/s/ Gregory J. Yurek
_____ Date	_____ Gregory J. Yurek Chairman of the Board, President and Chief Executive Officer
11/14/01	/s/ Thomas M. Rosa
_____ Date	_____ Thomas M. Rosa Chief Accounting Officer, Corporate Controller and Assistant Secretary