

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

- Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended **December 31, 2022**
- 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**  
(State or other jurisdiction of  
incorporation or organization)

**114 East Main St. Ayer, Massachusetts**  
(Address of principal executive offices)

**04-2959321**  
(I.R.S. Employer  
Identification No.)

**01432**  
(Zip Code)

**(978) 842-3000**  
(Registrant's telephone number, including area code)

**N/A**  
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	AMSC	Nasdaq Global Select Market

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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Shares outstanding of the Registrant's common stock:

**Common Stock, par value \$0.01 per share**

**29,530,137**

Class

Outstanding as of January 30, 2023

AMERICAN SUPERCONDUCTOR CORPORATION  
INDEX

	<u>Page No.</u>
<u>PART I—FINANCIAL INFORMATION</u>	
Item 1. <a href="#">Financial Statements</a>	<a href="#">3</a>
Item 2. <a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">23</a>
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">30</a>
Item 4. <a href="#">Controls and Procedures</a>	<a href="#">30</a>
<u>PART II—OTHER INFORMATION</u>	
Item 1. <a href="#">Legal Proceedings</a>	<a href="#">31</a>
Item 1A. <a href="#">Risk Factors</a>	<a href="#">31</a>
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">31</a>
Item 3. <a href="#">Defaults Upon Senior Securities</a>	<a href="#">31</a>
Item 4. <a href="#">Mine Safety Disclosure</a>	<a href="#">31</a>
Item 5. <a href="#">Other Information</a>	<a href="#">31</a>
Item 6. <a href="#">Exhibits</a>	<a href="#">32</a>
<a href="#">Signature</a>	<a href="#">33</a>

AMERICAN SUPERCONDUCTOR CORPORATION

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	<u>December 31, 2022</u>	<u>March 31, 2022</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 23,685	\$ 40,584
Accounts receivable, net	17,568	20,280
Inventory, net	38,725	23,666
Prepaid expenses and other current assets	7,544	7,052
Restricted cash	6,643	2,754
Total current assets	<u>94,165</u>	<u>94,336</u>
Property, plant and equipment, net	12,611	13,656
Intangibles, net	9,215	11,311
Right-of-use assets	3,068	3,502
Goodwill	43,471	43,471
Restricted cash	1,023	6,148
Deferred tax assets	1,086	1,224
Other assets	433	239
Total assets	<u>\$ 165,072</u>	<u>\$ 173,887</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 32,060	\$ 29,140
Lease liability, current portion	822	740
Debt, current portion	72	72
Contingent consideration	860	1,200
Deferred revenue, current portion	34,239	22,812
Total current liabilities	<u>\$ 68,053</u>	<u>53,964</u>
Deferred revenue, long-term portion	7,176	7,222
Lease liability, long-term portion	2,375	2,900
Deferred tax liabilities	202	297
Debt, long-term portion	35	90
Other liabilities	24	25
Total liabilities	<u>77,865</u>	<u>64,498</u>
Commitments and Contingencies (Note 16)		
Stockholders' equity:		
Common stock	299	289
Additional paid-in capital	1,137,622	1,133,536
Treasury stock	(3,639)	(3,639)
Accumulated other comprehensive income (loss)	1,603	(291)
Accumulated deficit	(1,048,678)	(1,020,506)
Total stockholders' equity	<u>87,207</u>	<u>109,389</u>
Total liabilities and stockholders' equity	<u>\$ 165,072</u>	<u>\$ 173,887</u>

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

**AMERICAN SUPERCONDUCTOR CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	2021	2022	2021
Revenues	\$ 23,881	\$ 26,799	\$ 74,241	\$ 80,126
Cost of revenues	23,364	23,227	69,533	69,925
Gross margin	517	3,572	4,708	10,201
Operating expenses:				
Research and development	2,083	2,657	7,076	8,368
Selling, general and administrative	7,173	6,777	22,084	20,615
Amortization of acquisition-related intangibles	690	628	2,058	1,840
Change in fair value of contingent consideration	(220)	(2,110)	(340)	(4,440)
Total operating expenses	9,726	7,952	30,878	26,383
Operating loss	(9,209)	(4,380)	(26,170)	(16,182)
Interest income, net	42	12	112	68
China dissolution	-	-	(1,921)	-
Other income (expense), net	(287)	45	(48)	7
Loss before income tax expense	(9,454)	(4,323)	(28,027)	(16,107)
Income tax expense (benefit)	127	1	144	(1,946)
Net loss	\$ (9,581)	\$ (4,324)	\$ (28,171)	\$ (14,161)
Net loss per common share				
Basic	\$ (0.34)	\$ (0.16)	\$ (1.01)	\$ (0.52)
Diluted	\$ (0.34)	\$ (0.16)	\$ (1.01)	\$ (0.52)
Weighted average number of common shares outstanding				
Basic	27,954	27,352	27,794	27,145
Diluted	27,954	27,352	27,794	27,145

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

**AMERICAN SUPERCONDUCTOR CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(In thousands)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Net loss	\$ (9,581)	\$ (4,324)	\$ (28,171)	\$ (14,161)
Other comprehensive (loss) gain, net of tax:				
China dissolution	-	-	1,921	-
Foreign currency translation (loss) gain	(195)	20	(27)	(19)
Total other comprehensive (loss) gain, net of tax	(195)	20	1,894	(19)
Comprehensive loss	<u>\$ (9,776)</u>	<u>\$ (4,304)</u>	<u>\$ (26,277)</u>	<u>\$ (14,180)</u>

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

**AMERICAN SUPERCONDUCTOR CORPORATION**  
**UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2022 AND 2021**

(In thousands)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Number of Shares	Par Value					
Balance at March 31, 2022	28,920	\$ 289	\$ 1,133,536	\$ (3,639)	\$ (291)	\$ (1,020,506)	\$ 109,389
Issuance of common stock - restricted shares, net of forfeited shares	(9)	—	—	—	—	—	—
Stock-based compensation expense	—	—	1,033	—	—	—	1,033
Issuance of stock for 401(k) match	28	—	138	—	—	—	138
Cumulative translation adjustment	—	—	—	—	63	—	63
Net loss	—	—	—	—	—	(8,710)	(8,710)
Balance at June 30, 2022	28,939	\$ 289	\$ 1,134,707	\$ (3,639)	\$ (228)	\$ (1,029,216)	\$ 101,913
Issuance of common stock - ESPP	34	—	127	—	—	—	127
Issuance of common stock - restricted shares	331	3	(3)	—	—	—	—
Stock-based compensation expense	—	—	1,019	—	—	—	1,019
Issuance of stock for 401(k) match	33	1	178	—	—	—	179
Cumulative translation adjustment	—	—	—	—	2,026	—	2,026
Net loss	—	—	—	—	—	(9,881)	(9,881)
Balance at September 30, 2022	29,337	\$ 293	\$ 1,136,028	\$ (3,639)	\$ 1,798	\$ (1,039,097)	\$ 95,383
Issuance of common stock - restricted shares	550	6	(6)	—	—	—	—
Stock-based compensation expense	—	—	1,440	—	—	—	1,440
Issuance of stock for 401(k) match	41	—	160	—	—	—	160
Cumulative translation adjustment	—	—	—	—	(195)	—	(195)
Net loss	—	—	—	—	—	(9,581)	(9,581)
Balance at December 31, 2022	29,928	\$ 299	\$ 1,137,622	\$ (3,639)	\$ 1,603	\$ (1,048,678)	\$ 87,207
	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Number of Shares	Par Value					
Balance at March 31, 2021	27,988	\$ 280	\$ 1,121,495	\$ (3,593)	\$ (277)	\$ (1,001,313)	\$ 116,592
Issuance of common stock - bonus payout	111	1	1,681	—	—	—	1,682
Issuance of common stock - restricted shares	318	3	(3)	—	—	—	—
Stock-based compensation expense	—	—	1,292	—	—	—	1,292
Issuance of stock for 401(k) match	7	—	112	—	—	—	112
Neeltran acquisition	302	3	4,384	—	—	—	4,387
Repurchase of treasury stock	—	—	—	(46)	—	—	(46)
Cumulative translation adjustment	—	—	—	—	(63)	—	(63)
Net loss	—	—	—	—	—	(5,403)	(5,403)
Balance at June 30, 2021	28,726	\$ 287	\$ 1,128,961	\$ (3,639)	\$ (340)	\$ (1,006,716)	\$ 118,553
Issuance of common stock - ESPP	10	—	125	—	—	—	125
Issuance of common stock - bonus payout	47	1	597	—	—	—	598
Stock-based compensation expense	—	—	1,101	—	—	—	1,101
Issuance of stock for 401(k) match	10	—	137	—	—	—	137
Cumulative translation adjustment	—	—	—	—	24	—	24
Net loss	—	—	—	—	—	(4,434)	(4,434)
Balance at September 30, 2021	28,793	\$ 288	\$ 1,130,921	\$ (3,639)	\$ (316)	\$ (1,011,150)	\$ 116,104
Issuance of common stock - restricted shares	54	1	(1)	—	—	—	—
Stock-based compensation expense	—	—	1,120	—	—	—	1,120
Issuance of stock for 401(k) match	8	—	115	—	—	—	115
Cumulative translation adjustment	—	—	—	—	20	—	20
Net loss	—	—	—	—	—	(4,324)	(4,324)
Balance at December 31, 2021	28,855	\$ 289	\$ 1,132,155	\$ (3,639)	\$ (296)	\$ (1,015,474)	\$ 113,035

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

**AMERICAN SUPERCONDUCTOR CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	<u>Nine Months Ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Net loss	\$ (28,171)	\$ (14,161)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	4,104	4,009
Stock-based compensation expense	3,492	3,513
Provision for excess and obsolete inventory	1,247	1,627
Deferred income taxes	65	(2,136)
Change in fair value of contingent consideration	(340)	(4,440)
China dissolution	1,921	-
Non-cash interest income	-	(49)
Other non-cash items	185	407
Unrealized foreign exchange loss on cash and cash equivalents	(3)	(118)
Changes in operating asset and liability accounts:		
Accounts receivable	2,738	(4,528)
Inventory	(16,324)	(279)
Prepaid expenses and other assets	(165)	85
Accounts payable and accrued expenses	2,565	(236)
Deferred revenue	11,619	381
Net cash used in operating activities	<u>(17,067)</u>	<u>(15,925)</u>
Cash flows from investing activities:		
Purchase of property, plant and equipment	(970)	(710)
Cash paid for acquisition, net of cash acquired	-	(11,479)
Proceeds from the maturity of marketable securities	-	5,189
Change in other assets	(194)	(56)
Net cash used in investing activities	<u>(1,164)</u>	<u>(7,056)</u>
Cash flows from financing activities:		
Repurchase of treasury stock	-	(46)
Repayment of debt	(56)	(30)
Proceeds from exercise of employee stock options and ESPP	127	125
Net cash provided by financing activities	<u>71</u>	<u>49</u>
Effect of exchange rate changes on cash	<u>25</u>	<u>(51)</u>
Net decrease in cash, cash equivalents and restricted cash	(18,135)	(22,983)
Cash, cash equivalents and restricted cash at beginning of period	49,486	75,539
Cash, cash equivalents and restricted cash at end of period	<u>\$ 31,351</u>	<u>\$ 52,556</u>
Supplemental schedule of cash flow information:		
Cash paid for income taxes, net of refunds	\$ 280	\$ 445
Non-cash investing and financing activities		
Issuance of common stock in connection with the purchase of Neeltran, Inc.	-	\$ 4,387
Issuance of common stock to settle liabilities	\$ 476	\$ 2,643

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

**AMERICAN SUPERCONDUCTOR CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Nature of the Business and Operations and Liquidity**

***Nature of the Business and Operations***

American Superconductor Corporation (together with its subsidiaries, “AMSC®” or the “Company”) was founded on April 9, 1987. The Company is a leading system provider of megawatt-scale power resiliency solutions that orchestrate the rhythm and harmony of power on the grid™ and that protect and expand the capability of the Navy’s fleet. The Company’s system level products leverage its proprietary “smart materials” and “smart software and controls” to provide enhanced resiliency and improved performance of megawatt-scale power flow.

These unaudited condensed consolidated financial statements of the Company have been prepared on a going concern basis in accordance with United States generally accepted accounting principles (“GAAP”) and the Securities and Exchange Commission’s (“SEC”) instructions to Form 10-Q. The going concern basis of presentation assumes that the Company will continue operations and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those instructions. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. The unaudited condensed consolidated financial statements, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim periods ended December 31, 2022 and 2021 and the financial position at December 31, 2022; however, these results are not necessarily indicative of results which may be expected for the full year. The interim condensed consolidated financial statements, and notes thereto, should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2022, and notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended March 31, 2022 filed with the SEC on June 1, 2022.

***Liquidity***

The Company has historically experienced recurring operating losses and as of December 31, 2022, the Company had an accumulated deficit of \$1,049 million. In addition, the Company has historically experienced recurring negative operating cash flows. At December 31, 2022, the Company had cash and cash equivalents of \$23.7 million. Cash used in operations for the nine months ended December 31, 2022 was \$17.1 million.

In February 2021, the Company filed a shelf registration statement on Form S-3 that will expire in February 2024 (the “Form S-3”). The Form S-3 allows the Company to offer and sell from time-to-time up to \$250 million of common stock, debt securities, warrants or units comprised of any combination of these securities. The Form S-3 is intended to provide the Company flexibility to conduct registered sales of the Company’s securities, subject to market conditions, in order to fund the Company’s future capital needs. The terms of any future offering under the Form S-3 will be established at the time of such offering and will be described in a prospectus supplement filed with the SEC prior to the completion of any such offering.

The Company is experiencing substantial inflationary pressure in its supply chain and some delays in sourcing materials needed for its products resulting in some production disruption, both of which have increased the Company’s cost of revenues and decreased gross margin. Changes in macroeconomic conditions arising from the COVID-19 pandemic or for other reasons, such as the ongoing war between Russia and Ukraine, inflation, rising interest rates, labor force availability, sourcing, material delays and global supply chain disruptions could have a material adverse effect on the Company’s business, financial condition and results of operation.

From time-to-time the Company may undertake restructuring activities in order to align the global organization in a manner that the Company believes will better position it to achieve its long-term goals. In January 2023, the Company undertook a reduction in force that involved approximately 5% of the global workforce. This restructuring is expected to incur an immaterial amount of cash expense and to result in annualized cost savings of approximately \$5 million, beginning in fiscal year 2023.

The Company believes that based on the information presented above and its quarterly management assessment, it has sufficient liquidity to fund its operations and capital expenditures for the next twelve months following the issuance of the financial statements for the nine months ended December 31, 2022. The Company’s liquidity is highly dependent on its ability to increase revenues, its ability to control its operating costs, and its ability to raise additional capital, if necessary. The impact of the COVID-19 pandemic and other sources of instability, including the war between Russia and Ukraine, on the global financing markets may reduce the Company’s ability to raise additional capital, if necessary, which could negatively impact the Company’s liquidity. There can be no assurance that the Company will be able to continue to raise additional capital, on favorable terms or at all, from other sources or execute on any other means of improving liquidity described above.



## 2. Acquisitions

### 2021 Acquisition of Neeltran

On May 6, 2021, the Company entered into a Purchase and Sale Agreement (the "Real Property Purchase Agreement") and a Stock Purchase Agreement (the "Neeltran Stock Purchase Agreement") with the selling equity holders named therein. Also on May 6, 2021, pursuant to the terms of the Real Property Purchase Agreement, the Company's wholly-owned Connecticut limited liability company, AMSC Husky LLC ("AMSC Husky"), purchased the real property that serves as Neeltran's headquarters for \$4.3 million, of which (a) \$2.4 million was paid in immediately available funds by AMSC Husky to the owners of such real property, and (b) \$1.9 million was paid directly to TD Bank as full payment for the outstanding indebtedness secured by the mortgage on such real property.

Pursuant to the terms of the Neeltran Stock Purchase Agreement, the Company purchased all of the issued and outstanding shares of capital stock of Neeltran, Inc., a Connecticut corporation ("Neeltran") and Neeltran International, Inc., a Connecticut corporation ("International") for \$1.0 million in cash and 301,556 shares of the Company's common stock, \$.01 par value per share ("AMSC Shares"), that were paid and issued, respectively, to the Neeltran selling stockholders. The Company also paid \$1.1 million to International selling stockholders to pay off previous loans made by them to Neeltran.

Additionally, the Company paid approximately \$7.6 million, including \$1.9 million of indebtedness secured by the mortgage on the real property as described above, directly to Neeltran lenders at closing to extinguish outstanding Neeltran indebtedness to third parties. The total purchase price of \$16.4 million includes cash paid, the fair value of the AMSC Shares issued at closing and the debt payoff on behalf of the sellers as follows (in millions):

Cash payment	\$	4.4
Issuance of 301,556 shares of Company's common stock		4.4
Debt payment to third party lenders on behalf of sellers		7.6
Total consideration	\$	16.4

The Neeltran Acquisition completed by the Company during the fiscal year ended March 31, 2022 has been accounted for under the purchase method of accounting in accordance with ASC 805, *Business Combinations*. The Company allocated the purchase price to the assets acquired and liabilities assumed at their estimated fair values as of the date of Neeltran Acquisition. The excess of the purchase price paid by the Company over the estimated fair value of net assets acquired has been recorded as goodwill. As Neeltran was previously a private company, the adoption of Accounting Standards Codification 842 ("ASC 842") was completed as part of the Neeltran Acquisition. See Note 15, "Leases" for further details. Neeltran had previously adopted Accounting Standards Codification 606, *Revenue from Contracts with Customers* ("ASC 606") as part of prior year audited financial statements.

The following table summarizes the allocation of the purchase price based on the estimated fair value of the assets acquired and liabilities assumed in connection with the Neeltran Acquisition (in millions):

Cash and short-term investments	\$	0.5
Net working capital (excluding inventory and deferred revenue)		(0.9)
Inventory		9.0
Property, plant and equipment		6.5
Deferred revenue		(10.0)
Deferred tax liability		(2.3)
Net tangible assets/(liabilities)		2.8
Backlog		0.1
Trade names and trademarks		1.2
Customer relationships		3.5
Net identifiable intangible assets/(liabilities)		4.8
Goodwill		8.8
Total purchase consideration	\$	16.4

Inventory includes a \$0.6 million adjustment to step up the inventory balance to fair value consistent with the purchase price allocation. The fair value was based on the estimated selling price of the inventory, less the remaining manufacturing and selling cost and a normal profit margin on those manufacturing and selling efforts. The inventory step up adjustment increased cost of revenue by \$0.6 million in the twelve month period ended March 31, 2022 as the inventory was sold. This increase is not reflected in the pro forma condensed combined statements of operations because it does not have a continuing impact beyond the first year.

Backlog of \$0.1 million was evaluated using the multi period excess earnings method under the income approach. The contracts with customers do not provide for any guarantees to source all future requirements from the Company. The amortization method being utilized is economic consumption estimated over a two year period with the expense being allocated to cost of revenues.

Customer relationships of \$3.5 million relates to customers currently under contract and was determined based on a multi period excess earnings method under the income approach. The method of amortization being utilized is the economic consumption over 7 years with the expense being allocated to SG&A.

Trade names and trademarks of \$1.2 million were reviewed using the assumption that the Company would continue to utilize the Neeltran trade name indefinitely. The relief from royalty method was utilized using a 1% royalty rate on revenues with a 24.5% discount rate over 15 years.

The goodwill represents the value associated with the acquired workforce and expected synergies related to the business combinations of the two companies. Goodwill resulting from the Neeltran Acquisition was assigned to the Company's Grid business segment. Goodwill recognized in the Neeltran Acquisition is not deductible for tax purposes. The Company has finalized its purchase price allocation for the Neeltran Acquisition, and there were no changes to the net assets and goodwill recorded by the Company as of May 6, 2021.

#### Unaudited Pro Forma Operating Results

The unaudited pro forma condensed consolidated statement of operations for the three and nine months ended December 31, 2022 and 2021 is presented as if the Neeltran Acquisition had occurred on April 1, 2021.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	2021	2022	2021
Revenues	\$ 23,881	\$ 26,799	\$ 74,241	\$ 82,957
Operating loss	(9,209)	(4,380)	(26,184)	(16,066)
Net loss	\$ (9,581)	\$ (4,324)	\$ (28,186)	\$ (14,323)
Net loss per common share				
Basic	\$ (0.34)	\$ (0.16)	\$ (1.01)	\$ (0.53)
Diluted	\$ (0.34)	\$ (0.16)	\$ (1.01)	\$ (0.53)
Shares - basic	27,954	27,352	27,794	27,185
Shares - diluted	27,954	27,352	27,794	27,185

The pro forma amounts include the historical operating results of the Company, and Neeltran, with appropriate adjustments that give effect to acquisition related costs, income taxes, intangible amortization resulting from the Neeltran Acquisition and certain conforming accounting policies of the Company. The pro forma amounts are not necessarily indicative of the operating results that would have occurred if the Neeltran Acquisition and related transactions had been completed at the beginning of the applicable periods presented. In addition, the pro forma amounts are not necessarily indicative of operating results in future periods.

#### Acquisition of NEPSI

On October 1, 2020 (the "NEPSI Acquisition Date"), the Company entered into a Stock Purchase Agreement (the "NEPSI Stock Purchase Agreement") with the selling stockholders named therein. Pursuant to the terms of the NEPSI Stock Purchase Agreement and concurrently with entering into such agreement, the Company acquired all of the issued and outstanding (i) shares of capital stock of Northeast Power Systems, Inc., a New York corporation ("NEPSI"), and (ii) membership interests of Northeast Power Realty, LLC, a New York limited liability company, which holds the real property that serves as NEPSI's headquarters (the "NEPSI Acquisition"). NEPSI is a U.S.-based global provider of medium-voltage metal-enclosed power capacitor banks and harmonic filter banks for use on electric power systems. Prior to the NEPSI Acquisition, the Company had purchased \$0.4 million of products from NEPSI in fiscal year 2019 for which NEPSI was paid and had recorded revenue.

Pursuant to the NEPSI Stock Purchase Agreement, the Company acquired all of the issued and outstanding shares of NEPSI, and membership interest in the realty entity, for which the Company paid \$26.0 million in cash and issued 873,657 restricted shares of the Company's common stock. Additionally, the Company may issue to the selling stockholders up to an additional 1,000,000 shares of common stock upon NEPSI's achievement of specified revenue objectives during varying periods of up to four years following closing of the NEPSI Acquisition. This contingent consideration is recorded as a derivative liability based on a Monte Carlo simulation to determine fair value at the time of issuance. NEPSI is now a wholly-owned subsidiary of the Company and is operated and reported as a component of its Grid business unit.

The NEPSI Acquisition completed by the Company during the fiscal year ended March 31, 2021 has been accounted for under the purchase method of accounting in accordance with ASC 805, *Business Combinations*. The Company allocated the purchase price to the assets acquired and liabilities assumed at their estimated fair values as of the date of NEPSI Acquisition. The excess of the purchase price paid by the Company over the estimated fair value of net assets acquired has been recorded as goodwill. As NEPSI was previously a private company, the adoption of ASC 606 was completed as part of the NEPSI Acquisition. See Note 3, "Revenue Recognition" for further details. There were no leases acquired and the NEPSI Acquisition had no impact to the Company's reporting under ASC 842.

The total purchase price of approximately \$42.4 million includes the fair value of shares of the Company's common stock issued at closing, cash paid, and contingent consideration as follows (in millions):

Cash payment	\$ 26.0
Issuance of 873,657 shares of Company's common stock	12.4
Contingent consideration	4.0
Total consideration	\$ 42.4

Total consideration consists of (a) cash of \$26.0 million, (b) issuance of the Company's common stock, using \$14.23 per share, which was the closing price on the day that the Company acquired NEPSI, and (c) \$4.0 million of contingent consideration for the earnout liability valued as of the NEPSI Acquisition Date. NEPSI Acquisition costs of \$0.3 million were recorded in selling, general and administrative ("SG&A") costs for the fiscal year ended March 31, 2021.

The fair value of the contingent consideration was determined using a Monte Carlo model and is accounted for as a derivative liability which is revalued at the fair value determined at each subsequent balance sheet date until the contingencies are resolved and the shares to be issued are determined, with the change in fair value recorded in the current period operating loss or (income). See Note 13, "Contingent Consideration" for further details and a summary of key assumptions used to determine fair value in each period.

The following table summarizes the allocation of the purchase price based on the estimated fair values of the assets acquired and liabilities assumed and related deferred income taxes in connection with the NEPSI Acquisition (in millions):

Net working capital (excluding inventory and deferred revenue)	\$	0.1
Inventory		4.2
Property, plant and equipment		2.3
Deferred revenue		(2.7)
Deferred tax liability		(1.7)
Net tangible assets/(liabilities)		2.2
Backlog		0.6
Trade names and trademarks		0.6
Customer relationships		6.1
Net identifiable intangible assets/(liabilities)		7.3
Goodwill		32.9
Total purchase consideration	\$	42.4

Inventory includes a \$1.0 million adjustment to step up the inventory balance to fair value consistent with the purchase price allocation. The fair value was determined based on the estimated selling price of the inventory, less the remaining manufacturing and selling cost and a normal profit margin on those manufacturing and selling efforts. The \$1.0 million step up adjustment increased cost of revenue in the fiscal year ended March 31, 2021 as the inventory was sold. This increase is not reflected in the pro forma condensed combined statements of operations because it does not have a continuing impact beyond the first year.

Backlog of \$0.6 million was evaluated using the multi period excess earnings method under the income approach. The contracts with customers do not provide for any guarantees to source all future requirements from the Company. The amortization method being utilized is economic consumption estimated over a two year period with the expense being allocated to cost of revenues.

Customer relationships of \$6.1 million relates to customers currently under contract and was determined based on a multi period excess earnings method under the income approach. The method of amortization being utilized is the economic consumption over 7 years with the expense being allocated to SG&A.

Trade names and trademarks of \$0.6 million were reviewed, using the assumption that the Company would continue to utilize the NEPSI trade name indefinitely. The relief from royalty method was utilized using an 8% royalty rate on revenues with a 13% discount rate over 8 years.

Goodwill represents the value associated with the acquired workforce and expected synergies related to the business combination of the two companies. Goodwill resulting from the NEPSI Acquisition was assigned to the Company's Grid business segment. Goodwill recognized in the NEPSI Acquisition is not deductible for tax purposes. The \$1.7 million of deferred tax liability is primarily related to inventory step up and intangibles.

### 3. Revenue Recognition

The Company's revenues in its Grid business segment are derived primarily through enabling the transmission and distribution of power, providing planning services that allow it to identify power grid needs and risks, and developing ship protection systems for the U.S. Navy. The Company's revenues in its Wind business segment are derived primarily through supplying advanced power electronics and control systems, licensing its highly engineered wind turbine designs, and providing extensive customer support services to wind turbine manufacturers. The Company records revenue based on a five-step model in accordance with ASC 606. For its customer contracts, the Company identifies the performance obligations, determines the transaction price, allocates the contract transaction price to the performance obligations, and recognizes the revenue when (or as) control of goods or services is transferred to the customer. In the three and nine months ended December 31, 2022, 87% and 80% of revenue, respectively, was recognized at the point in time when control transferred to the customer, with the remainder being recognized over time. In the three and nine months ended December 31, 2021, 79% and 76% of revenue, respectively, was recognized at the point in time when control transferred to the customer, with the remainder being recognized over time.

In the Company's equipment and system product line, each contract with a customer summarizes each product sold to a customer, which typically represents distinct performance obligations. A contract's transaction price is allocated to each distinct performance obligation using the respective standalone selling price which is determined primarily using the cost-plus expected margin approach and recognized as revenue when, or as, the performance obligation is satisfied. The majority of the Company's product sales transfer control to the customer in line with the contracted delivery terms and revenue is recorded at the point in time when title and risk transfer to the customer, which is primarily upon delivery, as the Company has determined that this is the point in time that control transfers to the customer.

The Company's equipment and system product line includes certain contracts which do not meet the requirements of an exchange transaction and therefore do not fall within the scope of ASC 606. As these non-exchange transaction contracts are considered grant revenue and do not fall within any specific accounting literature, the Company follows guidance within ASC 606 by analogy to recognize grant revenue over time. The Company recorded no grant revenue in each of the three and nine months ended December 31, 2022. In the three and nine months ended December 31, 2021, the Company recorded \$0.1 million and \$0.9 million in grant revenue, respectively, which is included in the Company's Grid business segment revenue.

In the Company's service and technology development product line, there are several different types of transactions and each begins with a contract with a customer that summarizes each product sold to a customer, which typically represent distinct performance obligations. The technology development transactions are primarily for activities that have no alternative use and for which a profit can be expected throughout the life of the contract. In these cases, the revenue is recognized over time, but in the instances where a reasonable profit margin cannot be assured throughout the entire contract, the revenue is recognized at a point in time. Each contract's transaction price is allocated to each distinct performance obligation using the respective standalone selling price which is determined primarily using the cost-plus expected margin approach. The ongoing service transactions are for service contracts that provide benefit to the customer simultaneously as the Company performs its obligations, and therefore this revenue is recognized ratably over time throughout the effective period of these contracts. The transaction prices on these contracts are allocated based on an adjusted market approach which is reassessed annually for reasonableness. The field service transactions include contracts for delivery of goods and completion of services made at the customer's requests, which are not deemed satisfied until the work has been completed and/or the requested goods have been delivered, so all of this revenue is recognized at the point in time when the control changes, and at allocated prices based on the adjusted market approach driven by standard price lists. The royalty transactions are related to certain contract terms on transactions in the Company's equipment and systems product line based on activity as specified in the contracts. The transaction prices of these agreements are calculated based on an adjusted market approach as specified in the contract. The Company reports royalty revenue for usage-based royalties when the sales have occurred. In circumstances when collectability is not assured and a contract does not exist under ASC 606, revenue is deferred until a non-refundable payment has been received for substantially all the amount that is due and there are no further remaining performance obligations.

The Company's service contracts can include a purchase order from a customer for specific goods in which each item is a distinct performance obligation satisfied at a point in time at which control of the goods is transferred to the customer. This transfer occurs based on the contracted delivery terms or when the requested service work has been completed. The transaction price for these goods is allocated based on the adjusted market approach considering similar transactions under similar circumstances. Service contracts are also derived from ongoing maintenance contracts and extended service-type warranty contracts. In these transactions, the Company is contracted to provide an ongoing service over a specified period of time. As the customer is consuming the benefits as the service is being provided, the revenue is recognized over time ratably.

The Company's policy is not to accept volume discounts, product returns, or rebates and allowances within its contracts. In the event a contract was approved with any of these terms, it would be evaluated for variable consideration, estimated and recorded as a reduction of revenue in the same period the related product revenue was recorded.

The Company provides assurance-type warranties on all product sales for a term of typically one to three years, and extended service-type warranties at the customer's option for an additional term ranging up to four additional years. The Company accrues for the estimated warranty costs for assurance warranties at the time of sale based on historical warranty experience plus any known or expected changes in warranty exposure. For all extended service-type warranties, the Company recognizes the revenue ratably over time during the effective period of the services.

The Company records revenue net of sales tax, value added tax, excise tax and other taxes collected concurrent with revenue-producing activities. The Company has elected to recognize the cost for freight and shipping when control over the products sold passes to customers and revenue is recognized. The Company has elected to recognize incremental costs of obtaining a contract as expense when incurred except in contracts where the amortization period would exceed twelve months; in such cases the long-term amount will be assessed for materiality. The Company has elected not to adjust the promised amount of consideration for the effects of a significant financing component if the period of financing is twelve months or less.

The Company monitors costs to meet our obligations on our customer contracts. When it is evident that there is a loss expected on a contract, a contract loss is accrued in the period. Several long-term contracts that were acquired from Neeltran were impacted by higher than planned costs due to required design changes and inflation on material costs, resulting in an increase to the contract loss accrual of \$1.6 million and \$3.2 million in the three and nine month period ended December 31, 2022 which negatively impacted the Company's gross margins.

The Company's contracts with customers do not typically include extended payment terms and may include milestone billing over the life of the contract. Payment terms vary by contract type and type of customer and generally range from 30 to 60 days from delivery.



The following tables disaggregate the Company's revenue by product line and by shipment destination (in thousands):

Product Line:	Three Months Ended December 31, 2022		Nine Months Ended December 31, 2022	
	Grid	Wind	Grid	Wind
Equipment and systems	\$ 19,475	\$ 2,842	\$ 61,680	\$ 6,144
Services and technology development	1,334	230	4,657	1,760
Total	<u>\$ 20,809</u>	<u>\$ 3,072</u>	<u>\$ 66,337</u>	<u>\$ 7,904</u>

Region:	Three Months Ended December 31, 2022		Nine Months Ended December 31, 2022	
Americas	\$ 17,010	19	\$ 51,934	\$ 19
Asia Pacific	1,760	3,053	10,615	7,815
EMEA	2,039	-	3,788	70
Total	<u>\$ 20,809</u>	<u>\$ 3,072</u>	<u>\$ 66,337</u>	<u>\$ 7,904</u>

Product Line:	Three Months Ended December 31, 2021		Nine Months Ended December 31, 2021	
	Grid	Wind	Grid	Wind
Equipment and systems	\$ 23,416	\$ 1,309	\$ 67,605	\$ 4,168
Services and technology development	1,634	440	5,564	2,789
Total	<u>\$ 25,050</u>	<u>\$ 1,749</u>	<u>\$ 73,169</u>	<u>\$ 6,957</u>

Region:	Three Months Ended December 31, 2021		Nine Months Ended December 31, 2021	
Americas	\$ 16,739	\$ 56	\$ 57,498	\$ 134
Asia Pacific	7,064	1,690	10,931	6,781
EMEA	1,247	3	4,740	42
Total	<u>\$ 25,050</u>	<u>\$ 1,749</u>	<u>\$ 73,169</u>	<u>\$ 6,957</u>

As of December 31, 2022, and 2021, the Company's contract assets and liabilities primarily relate to the timing differences between cash received from a customer in connection with contractual rights to invoicing and the timing of revenue recognition following completion of performance obligations. The Company's accounts receivable balance is made up entirely of customer contract related balances. Changes in the Company's contract assets, which are included in "Unbilled accounts receivable" and "Deferred program costs" (see Note 8, "Accounts Receivable" and Note 9, "Inventory" for a reconciliation to the condensed consolidated balance sheets) and "Contract liabilities", which are included in the current portion and long-term portion of "Deferred revenue" in the Company's condensed consolidated balance sheets, are as follows (in thousands):

	Unbilled Accounts Receivable	Deferred Program Costs	Contract Liabilities
Beginning balance as of March 31, 2022	\$ 6,492	\$ 858	\$ 30,034
Increases for costs incurred to fulfill performance obligations	—	909	—
Increase (decrease) due to customer billings	(11,723)	—	48,013
Decrease due to cost recognition on completed performance obligations	—	(791)	—
Increase (decrease) due to recognition of revenue based on transfer of control of performance obligations	9,544	—	(36,452)
Other changes and FX impact	—	(15)	(180)
Ending balance as of December 31, 2022	<u>\$ 4,313</u>	<u>\$ 961</u>	<u>\$ 41,415</u>

	Unbilled Accounts Receivable	Deferred Program Costs	Contract Liabilities
Beginning balance as of March 31, 2021	\$ 5,765	\$ 977	\$ 21,257
Increases for costs incurred to fulfill performance obligations	—	3,140	—
Increase for balance acquired	—	634	10,048
Increase (decrease) due to customer billings	(11,214)	—	55,354
Decrease due to cost recognition on completed performance obligations	—	(4,128)	—
Increase (decrease) due to recognition of revenue based on transfer of control of performance obligations	12,186	—	(55,318)
Other changes and FX impact	—	(8)	137
Ending balance as of December 31, 2021	<u>\$ 6,737</u>	<u>\$ 615</u>	<u>\$ 31,478</u>

The Company's remaining performance obligations represent the unrecognized revenue value of the Company's contractual commitments. The Company's performance obligations may vary significantly each reporting period based on the timing of major new contractual commitments. As of December 31, 2022, the Company had outstanding performance obligations on existing contracts under ASC 606 to be recognized in the next twelve months of approximately \$112.1 million. There are also approximately \$30.4 million of outstanding performance obligations to be recognized over a period of thirteen to sixty months. The remaining performance obligations are subject to customer actions and therefore the timing of revenue recognition cannot be reasonably estimated. The twelve-month performance obligations include anticipated shipments to Inox based on the twelve-month rolling forecast provided by Inox on the multi-year supply contract. The quantities specified in any forecast provided by Inox related to the multi-year supply contract are firm and irrevocable for the first three months of a twelve-month rolling forecast. The timing of the performance obligations beyond the twelve-month forecast provided by Inox are not determinable and therefore are not included in the total remaining performance obligations.

The following table sets forth customers who represented 10% or more of the Company's total revenues for the three and nine months ended December 31, 2022 and 2021:

	Reportable Segment	Three Months Ended December 31,		Nine Months Ended December 31,	
		2022	2021	2022	2021
		Inox Wind Limited	Wind	11%	<10%
Fuji Bridex Pte Ltd	Grid	<10%	20%	10%	10%

#### 4. Stock-Based Compensation

The Company accounts for its stock-based compensation at fair value. The following table summarizes stock-based compensation expense by financial statement line item for the three and nine months ended December 31, 2022 and 2021 (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	2021	2022	2021
Cost of revenues	\$ 89	\$ 36	\$ 195	\$ 148
Research and development	214	190	570	629
Selling, general and administrative	1,137	894	2,727	2,736
Total	\$ 1,440	\$ 1,120	\$ 3,492	\$ 3,513

The Company issued 550,000 shares of restricted stock during the three months ended December 31, 2022, and 888,500 shares of restricted stock and 25,806 shares of immediately vested common stock during the nine months ended December 31, 2022. The Company issued 61,000 shares of restricted stock during the three months ended December 31, 2021, and 370,700 shares of restricted stock and 166,648 shares of immediately vested common stock, of which 158,356 shares were issued in-lieu of cash bonuses during the nine months ended December 31, 2021. These restricted stock awards generally vest over 2-3 years. Awards for restricted stock include both time-based and performance-based awards. For options and restricted stock awards that vest upon the passage of time, expense is being recorded over the vesting period. Performance-based awards are expensed over the requisite service period based on probability of achievement.

The estimated fair value of the Company's stock-based awards, less expected annual forfeitures, is amortized over the awards' service period. The total unrecognized compensation cost for unvested stock options was \$0.1 million during the nine months ended December 31, 2022. This expense will be recognized over a weighted average of approximately 1.4 years. The total unrecognized compensation cost for unvested outstanding restricted stock was \$6.1 million at December 31, 2022. This expense will be recognized over a weighted-average expense period of approximately 1.7 years.

The Company granted 20,564 stock options during the nine months ended December 31, 2022. The Company did not grant any stock options during the three months ended December 31, 2022 or the three and nine months ended December 31, 2021. The stock options granted during the nine months ended December 31, 2022 will vest over 2 years. The weighted average assumptions used in the Black Scholes valuation model for stock options granted during the nine months ended December 31, 2022 are as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	2021	2022	2021
Expected volatility	N/A	N/A	71.40%	N/A
Risk-free interest rate	N/A	N/A	3.10%	N/A
Expected life (years)	N/A	N/A	6.14	N/A
Dividend yield	N/A	N/A	None	N/A

#### 5. Computation of Net Loss per Common Share

Basic net loss per share ("EPS") is computed by dividing net loss by the weighted-average number of common shares outstanding for the period. Where applicable, diluted EPS is computed by dividing the net loss by the weighted-average number of common shares and dilutive common equivalent shares outstanding during the period, calculated using the treasury stock method. Common equivalent shares include the effect of restricted stock, exercise of stock options and warrants and contingently issuable shares. Stock options and warrants that are out-of-the-money with exercise prices greater than the average market price of the underlying common shares and shares of performance-based restricted stock where the contingency was not met are excluded from the computation of diluted EPS as the effect of their inclusion would be anti-dilutive. For each of the three and nine months ended December 31, 2022, and 2021, 1.1 million shares were not included in the calculation of diluted EPS. Of these, 1.0 million relate to shares tied to the derivative liability for which the contingency has not yet been met, and 0.1 million relate to outstanding stock options as they were considered anti-dilutive.

The following table reconciles the numerators and denominators of the earnings per share calculation for the three and nine months ended December 31, 2022 and 2021 (in thousands, except per share data):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	2021	2022	2021
<b>Numerator:</b>				
Net loss	\$ (9,581)	\$ (4,324)	\$ (28,171)	\$ (14,161)
<b>Denominator:</b>				
Weighted-average shares of common stock outstanding	29,354	28,418	28,884	28,234
Weighted-average shares subject to repurchase	(1,400)	(1,066)	(1,090)	(1,089)
Shares used in per-share calculation — basic	27,954	27,352	27,794	27,145
Shares used in per-share calculation — diluted	27,954	27,352	27,794	27,145
Net loss per share — basic	\$ (0.34)	\$ (0.16)	\$ (1.01)	\$ (0.52)
Net loss per share — diluted	\$ (0.34)	\$ (0.16)	\$ (1.01)	\$ (0.52)



## 6. Goodwill and Other Intangibles

### Goodwill

Goodwill represents the difference between the purchase price and the fair value of the identifiable tangible and intangible net assets when accounted for using the purchase method of accounting. The Company's goodwill balance relates to the Neeltran Acquisition in fiscal 2021, the NEPSI Acquisition in fiscal 2020, and the acquisition of Infinia Technology Corporation in fiscal 2017 and is reported in the Grid business segment. Goodwill is not amortized but reviewed for impairment. Goodwill is reviewed annually and whenever events or changes in circumstances indicate that the carrying value of the goodwill might not be recoverable.

The following table provides a roll forward of the changes in the Company's Grid business segment goodwill balance:

	<b>Goodwill</b>
March 31, 2021	\$ 34,634
Neeltran Acquisition	8,837
March 31, 2022	\$ 43,471
Less impairment loss	-
December 31, 2022	\$ 43,471

The Company did not identify any triggering events in the three and nine months ended December 31, 2022 that would require interim impairment testing of goodwill.

### Other Intangibles

Intangible assets at December 31, 2022 and March 31, 2022 consisted of the following (in thousands):

	<b>December 31, 2022</b>			<b>March 31, 2022</b>			<b>Estimated Useful Life</b>
	<b>Gross Amount</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>	<b>Gross Amount</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>	
Licenses	\$ 3,610	\$ (3,610)	—	\$ 3,610	\$ (3,610)	—	7
Backlog	\$ 681	\$ (675)	\$ 6	\$ 681	\$ (631)	\$ 50	2
Trade name and trademarks	1,800	—	1,800	1,800	—	1,800	Indefinite
Customer relationships	9,600	(4,413)	5,187	9,600	(2,723)	6,877	7
Core technology and know-how	5,970	(3,748)	2,222	5,970	(3,386)	2,584	5-10
Intangible assets	<u>\$ 21,661</u>	<u>\$ (12,446)</u>	<u>\$ 9,215</u>	<u>\$ 21,661</u>	<u>\$ (10,350)</u>	<u>\$ 11,311</u>	

The Company recorded intangible amortization expense related to customer relationship and core technology and know-how of \$0.7 million and \$2.1 million, in the three and nine months ended December 31, 2022, respectively, and \$0.6 million and \$1.8 million in the three and nine months ended December 31, 2021, respectively. Additionally, the Company recorded intangible amortization related to backlog that is reported in cost of revenues of less than \$0.1 million in each of the three and nine months ended December 31, 2022. The Company recorded intangible amortization related to backlog that is reported in cost of revenues of \$0.1 million in each of the three and nine months ended December 31, 2021, respectively.

Expected future amortization expense related to intangible assets is as follows (in thousands):

<b>Years ended March 31,</b>	<b>Total</b>
2023	688
2024	2,158
2025	1,648
2026	1,221
2027	1,085
Thereafter	615
Total	<u>\$ 7,415</u>

The Company's intangible assets relate entirely to the Grid business segment operations in the United States.

## 7. Fair Value Measurements

A valuation hierarchy for disclosure of the inputs to valuation used to measure fair value has been established. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1** - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2** - Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).
- Level 3** - Unobservable inputs that reflect the Company's assumptions that market participants would use in pricing the asset or liability. The Company develops these inputs based on the best information available, including its own data.

The Company provides a gross presentation of activity within Level 3 measurement roll-forward and details of transfers in and out of Level 1 and 2 measurements. A change in the hierarchy of an investment from its current level is reflected in the period during which the pricing methodology of such investment changes. Disclosure of the transfer of securities from Level 1 to Level 2 or Level 3 is made in the event that the related security is significant to total cash and investments. The Company did not have any transfers of assets and liabilities from Level 1, Level 2 or Level 3 of the fair value measurement hierarchy during the nine months ended December 31, 2022.

A financial asset's or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

### Valuation Techniques

#### Cash Equivalents

Cash equivalents consist of highly liquid instruments with maturities of three months or less that are regarded as high quality, low risk investments, are measured using such inputs as quoted prices and are classified within Level 1 of the valuation hierarchy. Cash equivalents consist principally of certificates of deposits and money market accounts.

#### Contingent Consideration

Contingent consideration relates to the earnout payment set forth in the NEPSI Stock Purchase Agreement that provides that the selling stockholders may receive up to an additional 1,000,000 shares of common stock of the Company upon the achievement of certain specified revenue objectives over varying periods of up to four years following the NEPSI Acquisition Date. See Note 13, "Contingent Consideration" and Note 2, "Acquisitions" for further discussion. The Company relied on a Monte Carlo method to determine the fair value of the contingent consideration on the NEPSI Acquisition Date and will continue to revalue the fair value of the contingent consideration using the same method at each subsequent balance sheet date until the contingencies are resolved and the shares to be issued are determined, with the change in fair value recorded in the current period operating loss.

The following table provides the assets and liabilities carried at fair value on a recurring basis, measured as of December 31, 2022 and March 31, 2022 (in thousands):

	<u>Total Carrying Value</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>December 31, 2022:</b>				
Assets:				
Cash equivalents	\$ 6,392	\$ 6,392	\$ —	\$ —
Derivative liabilities:				
Contingent consideration	\$ 860	\$ —	\$ —	\$ 860
	<u>Total Carrying Value</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>March 31, 2022:</b>				
Assets:				
Cash equivalents	\$ 17,641	\$ 17,641	\$ —	\$ —
Derivative liabilities:				
Contingent consideration	\$ 1,200	\$ —	\$ —	\$ 1,200

The table below reflects the activity for the Company's derivative liability measured at fair value on a recurring basis (in thousands):

	<b>Acquisition Contingent Consideration</b>
Balance at March 31, 2021	\$ 7,050
Change in fair value	(5,850)
Balance at March 31, 2022	1,200
Change in fair value	(340)
Balance at December 31, 2022	<u>\$ 860</u>

## 8. Accounts Receivable

Accounts receivable at December 31, 2022 and March 31, 2022 consisted of the following (in thousands):

	<b>December 31, 2022</b>	<b>March 31, 2022</b>
Accounts receivable (billed)	\$ 13,255	\$ 13,788
Accounts receivable (unbilled)	4,313	6,492
Accounts receivable, net	<u>\$ 17,568</u>	<u>\$ 20,280</u>

## 9. Inventory

Inventory, net of reserves, at December 31, 2022 and March 31, 2022 consisted of the following (in thousands):

	<b>December 31, 2022</b>	<b>March 31, 2022</b>
Raw materials	\$ 18,122	\$ 11,020
Work-in-process	12,496	10,462
Finished goods	7,146	1,326
Deferred program costs	961	858
Net inventory	<u>\$ 38,725</u>	<u>\$ 23,666</u>

The Company recorded inventory write-downs of \$0.2 million and \$0.4 million for the three months ended December 31, 2022 and 2021, respectively. The Company recorded inventory write-downs of \$1.2 million and \$1.6 million for the nine months ended December 31, 2022 and 2021, respectively. These write-downs were based on the Company's evaluation of its inventory on hand for excess quantities and obsolescence.

Deferred program costs as of December 31, 2022 and March 31, 2022, primarily represent costs incurred on programs where the Company needs to complete performance obligations before the related revenue and costs will be recognized.

## 10. Property, Plant and Equipment

The cost and accumulated depreciation of property, plant and equipment at December 31, 2022 and March 31, 2022 are as follows (in thousands):

	December 31, 2022	March 31, 2022
Construction in progress - equipment	\$ 844	\$ 573
Land	980	980
Building	5,416	5,270
Equipment and software	43,938	43,668
Finance lease - right of use asset	3	8
Furniture and fixtures	1,530	1,379
Leasehold improvements	6,650	6,634
Property, plant and equipment, gross	\$ 59,361	58,512
Less accumulated depreciation	(46,750)	(44,856)
Property, plant and equipment, net	\$ 12,611	\$ 13,656

Depreciation expense was \$0.6 million and \$0.7 million for the three months ended December 31, 2022 and 2021, respectively. Depreciation expense was \$2.0 million for each of the nine months ended December 31, 2022 and 2021, respectively.

## 11. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at December 31, 2022 and March 31, 2022 consisted of the following (in thousands):

	December 31, 2022	March 31, 2022
Accounts payable	\$ 13,548	\$ 13,192
Accrued inventories in-transit	2,126	2,212
Accrued other miscellaneous expenses	6,539	3,602
Advanced deposits	3,152	3,021
Accrued compensation	4,281	4,642
Income taxes payable	418	405
Accrued product warranty	1,996	2,066
Total	\$ 32,060	\$ 29,140

The Company generally provides a one to three year warranty on its products, commencing upon delivery or installation where applicable. A provision is recorded upon revenue recognition to cost of revenues for estimated warranty expense based on historical experience.

Product warranty activity was as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	2021	2022	2021
Balance at beginning of period	\$ 2,053	\$ 2,155	\$ 2,066	\$ 2,053
Acquired warranty obligations	-	-	-	248
Change in accruals for warranties during the period	535	206	1,191	520
Settlements during the period	(592)	(143)	(1,261)	(603)
Balance at end of period	\$ 1,996	\$ 2,218	\$ 1,996	\$ 2,218

## 12. Income Taxes

The Company recorded an income tax expense of \$0.1 million in each of the three and nine months ended December 31, 2022. The Company recorded an income tax expense of less than \$0.1 million and income tax benefit of \$1.9 million in the three and nine months ended December 31, 2021, respectively.

As a result of a difference in book and tax basis related to the intangible assets acquired in the Neeltran Acquisition (see Note 2, "Acquisitions"), the Company recorded a deferred tax liability of \$2.3 million during the nine months ended December 31, 2021. As a result, the Company was able to benefit from additional deferred tax assets and therefore released a corresponding valuation allowance of \$2.3 million during the nine months ended December 31, 2021. Goodwill recognized in the Neeltran Acquisition is not deductible for tax purposes.

Accounting for income taxes requires a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if, based on the technical merits, it is more likely than not the position will be sustained upon audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company re-evaluates these uncertain tax positions on a quarterly basis. The evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit and new audit activity. Any changes in these factors could result in the recognition of a tax benefit or an additional charge to the tax provision. The Company did not identify any uncertain tax positions in the nine months ended December 31, 2022 and did not have any gross unrecognized tax benefits as of December 31, 2022.

### 13. Contingent Consideration

#### *Contingent Consideration*

The Company evaluated the NEPSI Acquisition earnout payment set forth in the NEPSI Stock Purchase Agreement (see Note 2, "Acquisitions" for further details), which may require settlement in the Company's common stock, and determined the contingent consideration qualified for liability classification and derivative treatment under ASC 815, *Derivatives and Hedging*. As a result, for each period, the fair value of the contingent consideration will be remeasured and the resulting gain or loss will be recognized in operating expenses until the share amount is fixed.

Following is a summary of the key assumptions used in a Monte Carlo simulation to calculate the fair value of the contingent consideration related to the NEPSI Acquisition:

	December 31, 2022	September 30, 2022	June 30, 2022		
Fiscal Year 2022					
Revenue risk premium	5.30%	5.20%	6.60%		
Revenue volatility	25%	25%	30%		
Stock Price	\$ 3.68	\$ 4.38	\$ 5.18		
Payment delay (days)	80	80	80		
Fair value (millions)	\$ 0.9	\$ 1.1	\$ 1.4		
	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021
Fiscal Year 2021					
Revenue risk premium	6.50%	6.60%	6.60%	6.60%	6.70%
Revenue volatility	33%	33%	30%	30%	30%
Stock Price	\$ 7.61	\$ 10.88	\$ 14.58	\$ 17.39	\$ 18.96
Payment delay (days)	80	80	80	80	80
Fair value (millions)	\$ 1.2	\$ 2.6	\$ 4.7	\$ 7.2	\$ 7.1

The Company recorded a net gain of \$0.2 million and \$0.3 million resulting from the decrease in the fair value of the contingent consideration in the three and nine months ended December 31, 2022. The Company recorded a net gain of \$2.1 million and \$4.4 million resulting from the decrease in the fair value of the contingent consideration in the three and nine months ended December 31, 2021, respectively.

### 14. Debt

As part of the Neeltran Acquisition, the Company identified four equipment financing agreements that Neeltran had entered into prior to the acquisition on May 6, 2021. The Company determined to account for these agreements as a debt transaction and recorded current and long-term debt liabilities of \$0.1 million each during the three months ended June 30, 2021. The current and long-term debt balance is \$0.1 million and less than \$0.1 million as of December 31, 2022, respectively.

### 15. Leases

The Company determines whether a contract is or contains a lease at inception of a contract. The Company defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property or equipment (an identified asset) for a period of time in exchange for consideration. Control over the use of the identified asset means that the Company has both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset.

The discount rate was calculated using an incremental borrowing rate based on an assessment prepared by the Company through the use of Company credit ratings, consideration of its lease populations potential risk to its total capital structure, and a market rate for a collateralized loan for its risk profile, calculated by a third party. The Company elected to apply the discount rate using the remaining lease term at the date of adoption for Neeltran lease contracts.

Following the Neeltran Acquisition, the Company evaluated all open Neeltran contracts at the date of the acquisition to determine if any applied under ASC 842 as Neeltran, a private company, had deferred adopting ASC 842 prior to the Neeltran Acquisition, as permitted. The Company identified nine lease contracts with terms greater than twelve months and evaluated them under ASC 842 guidance. As part of the implementation, the Company identified one lease contract that classified as a financing lease. The Company does not expect a material impact to the financial statements on an ongoing basis resulting from the adoption of the ASC 842 standard for the Neeltran business and Neeltran will follow the existing policies below.

#### *Operating Leases*

All significant lease arrangements are recognized at lease commencement. Operating lease right-of-use assets and lease liabilities are recognized at commencement. The operating lease right-of-use asset includes any lease payments related to initial direct cost and prepayments and excludes any lease incentives. Lease expense is recognized on a straight-line basis over the lease term. The Company enters into a variety of operating lease agreements through the normal course of its business, but primarily real estate leases to support its operations. The real estate lease agreements generally provide for

fixed minimum rental payments and the payment of real estate taxes and insurance. Many of these real estate leases have one or more renewal options that allow the Company, at its discretion, to renew the lease for varying periods up to five years or to terminate the lease. Only renewal options or termination rights that the Company believed were likely to be exercised were included in the lease calculations.

The Company also enters into leases for vehicles, IT equipment and service agreements, and other leases related to its manufacturing operations that are also included in the right-of-use assets and lease liability accounts if they are for a term of longer than twelve months. However, many of these leases are either short-term in nature or immaterial. The Company has made the policy election to exclude short-term leases from the balance sheet.

## Finance Leases

As part of the adoption of ASC 842 at Neeltran, the Company identified one lease contract that is classified as a finance lease. In February 2020, Neeltran entered into a contract to lease a copy machine for an initial term of 39 months, or through May 2023. The Company concluded that the lease should be classified and accounted for as a finance lease as the total value of the lease payments are greater than fair value of the asset. Accordingly, on May 6, 2021, the Company recognized a finance lease right-of-use asset and a finance lease liability of \$13.2 thousand on the Neeltran opening balance sheet. As of December 31, 2022, the right-of-use asset related to the finance lease was \$2.6 thousand, net of accumulated amortization of \$10.6 thousand, and is included in the property and equipment, net on the Company's consolidated balance sheet.

Finance lease right-of-use assets and lease liabilities are recognized similar to an operating lease, at the lease commencement date or the date the lessor makes the leased asset available for use. Finance lease right-of-use assets are generally amortized on a straight-line basis over the lease term, and the carrying amount of the finance lease liabilities are (1) accreted to reflect interest using the incremental borrowing rate if the rate implicit in the lease is not readily determinable, and (2) reduced to reflect lease payments made during the period. Amortization expense for finance lease right-of-use assets and interest accretion on finance lease liabilities are recorded to depreciation expense and interest expense, respectively in the Company's consolidated statement of operations.

Supplemental balance sheet information related to leases at December 31, 2022, and March 31, 2022 are as follows (in thousands):

	December 31, 2022	March 31, 2022
<b>Leases:</b>		
Right-of-use assets - Financing	\$ 3	8
Right-of-use assets - Operating	3,068	3,502
Total right-of-use assets	<u>3,071</u>	<u>3,510</u>
Lease liabilities - ST Financing	\$ 3	7
Lease liabilities - ST Operating	819	740
Lease liabilities - LT Financing	-	1
Lease liabilities - LT Operating	2,375	2,900
Total lease liabilities	<u><u>3,197</u></u>	<u><u>3,648</u></u>
Weighted-average remaining lease term	4.12	4.93
Weighted-average discount rate	6.42%	6.36%

The costs related to the Company's finance lease are not material. The costs related to the Company's operating leases for the three and nine months ended December 31, 2022 and 2021 are as follows (in thousands):

	Three Months Ended December 31, 2022	Nine Months Ended December 31, 2022
<b>Operating Leases:</b>		
Operating lease costs - fixed	\$ 256	\$ 765
Operating lease costs - variable	41	118
Short-term lease costs	30	92
Total lease costs	<u>327</u>	<u>975</u>

	Three Months Ended December 31, 2021	Nine Months Ended December 31, 2021
<b>Operating Leases:</b>		
Operating lease costs - fixed	\$ 238	\$ 707
Operating lease costs - variable	33	97
Short-term lease costs	64	195
Total lease costs	<u>335</u>	<u>999</u>

The Company's estimated minimum future lease obligations under the Company's leases are as follows (in thousands):

	Leases
Year ended March 31,	
2023	\$ 256
2024	973
2025	780
2026	720
2027	579
Thereafter	357
Total minimum lease payments	<u>3,665</u>
Less: interest	468
Present value of lease liabilities	<u><u>3,197</u></u>



## 16. Commitments and Contingencies

### Legal Contingencies

From time to time, the Company is involved in legal and administrative proceedings and claims of various types. The Company records a liability in its consolidated financial statements for these matters when a loss is known or considered probable and the amount can be reasonably estimated. The Company reviews these estimates each accounting period as additional information is known and adjusts the loss provision when appropriate. If a matter is both probable to result in a liability and the amounts of loss can be reasonably estimated, the Company estimates and discloses the possible loss or range of loss to the extent necessary to make the consolidated financial statements not misleading. If the loss is not probable or cannot be reasonably estimated, a liability is not recorded in its consolidated financial statements.

### Other

The Company enters into long-term construction contracts with customers that require the Company to obtain performance bonds. The Company is required to deposit an amount equivalent to some or all the face amount of the performance bonds into an escrow account until the termination of the bond. When the performance conditions are met, amounts deposited as collateral for the performance bonds are returned to the Company. In addition, the Company has various contractual arrangements in which minimum quantities of goods or services have been committed to be purchased on an annual basis.

As of December 31, 2022, the Company had \$1.0 million of restricted cash included in long-term assets and \$6.6 million of restricted cash included in current assets. As of March 31, 2022, the Company had \$6.1 million of restricted cash included in long term assets and \$2.8 million of restricted cash included in current assets. These amounts included in restricted cash primarily represent deposits to secure letters of credit for various supply contracts and long-term projects, including the irrevocable letter of credit in the amount of \$5.0 million to secure certain of the Company's obligations under a subcontract agreement with ComEd. These deposits are held in interest bearing accounts.

## 17. Business Segments

The Company reports its financial results in two reportable business segments: Grid and Wind.

Through the Company's power grid offerings, the Grid business segment enables electric utilities, industrial facilities, and renewable energy project developers to connect, transmit and distribute power with exceptional efficiency, reliability, security and affordability through its transmission planning services, power electronics, and superconductor-based systems. The sales process is enabled by transmission planning services that allow it to identify power grid congestion, poor power quality and other risks, which helps the Company determine how its solutions can improve network performance. These services often lead to sales of grid interconnection solutions for wind farms and solar power plants, power quality systems, and transmission and distribution cable systems. The Company also sells ship protection products to the U.S. Navy through its Grid business segment.

Through the Company's wind power offerings, the Wind business segment enables manufacturers to field wind turbines with exceptional power output, reliability and affordability. The Company provides advanced power electronics and control system products, engineered designs, and support services. The Company supplies advanced power electronics and control systems, licenses its highly engineered wind turbine designs, and provides extensive customer support services to wind turbine manufacturers. The Company's design portfolio includes a broad range of drivetrains and power ratings of 2 megawatts ("MWs") and higher. The Company provides a broad range of power electronics and software-based control systems that are highly integrated and designed for optimized performance, efficiency, and grid compatibility.

The operating results for the two business segments are as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	2021	2022	2021
<b>Revenues:</b>				
Grid	\$ 20,809	\$ 25,050	\$ 66,337	\$ 73,169
Wind	3,072	1,749	7,904	6,957
Total	<u>\$ 23,881</u>	<u>\$ 26,799</u>	<u>\$ 74,241</u>	<u>\$ 80,126</u>
	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	2021	2022	2021
<b>Operating loss:</b>				
Grid	\$ (7,064)	\$ (3,691)	\$ (20,840)	\$ (14,873)
Wind	(924)	(1,678)	(2,178)	(2,236)
Unallocated corporate expenses	(1,221)	989	(3,152)	927
Total	<u>\$ (9,209)</u>	<u>\$ (4,380)</u>	<u>\$ (26,170)</u>	<u>\$ (16,182)</u>

The accounting policies of the business segments are the same as those for the consolidated Company. The Company's business segments have been determined in accordance with the Company's internal management structure, which is organized based on operating activities. The Company evaluates performance based upon several factors, of which the primary financial measures are segment revenues and segment operating loss. The disaggregated financial results of the segments reflect allocation of certain functional expense categories consistent with the basis and manner in which Company management internally disaggregates financial information for the purpose of assisting in making internal operating decisions. In addition, certain corporate expenses which the Company does not believe are specifically attributable or allocable to either of the two business segments have been excluded from the segment operating loss.

Unallocated corporate expenses consist of a gain on contingent consideration of \$0.2 million and \$0.3 million in the three and nine months ended December 31, 2022. Unallocated corporate expenses consist of a gain on contingent consideration of \$2.1 million and \$4.4 million in the three and nine months ended December 31, 2021. Additionally, unallocated corporate expenses consist of stock-based compensation expense of \$1.4 million and \$1.1 million in the three months ended December 31, 2022, and 2021, respectively and \$3.5 million in each of the nine months ended December 31, 2022 and 2021, respectively.

Total assets for the two business segments as of December 31, 2022, and March 31, 2022, are as follows (in thousands):

	<b>December 31,</b> <b>2022</b>	<b>March 31, 2022</b>
Grid	\$ 123,664	\$ 114,053
Wind	10,005	9,866
Corporate assets	31,403	49,968
Total	<u>\$ 165,072</u>	<u>\$ 173,887</u>

## 18. Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in ASU 2016-13 will provide more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. Following the release of ASU 2019-10 in November 2019, the new effective date, as long as the Company remains a smaller reporting company, would be annual reporting periods beginning after December 15, 2022. The Company evaluated the impact of the adoption of ASU 2016-13, and does not expect it to have a material impact on its consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The amendments in ASU 2021-08 will improve the accounting for acquired revenue contracts with customers in a business combination. Following the release of ASU 2021-08 in October 2021, the new effective date will be annual reporting periods beginning after December 15, 2022. The Company evaluated the impact of the adoption of ASU 2021-08, and does not expect it to have a material impact on its consolidated financial statements.

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*. The amendments in ASU 2021-10 will improve financial reporting by requiring disclosures that increase the transparency of transactions with government accounted for by applying a grant or contribution accounting model by analogy. Following the release of ASU 2021-10 in November 2021, the new effective date will be annual reporting periods beginning after December 15, 2021. As of April 1, 2022, the Company has adopted ASU 2021-10 and noted no material impact on its consolidated financial statements.

## 19. Subsequent Events

The Company has performed an evaluation of subsequent events through the time of filing this Quarterly Report on Form 10-Q with the SEC and has determined that there are no such events to report.

**AMERICAN SUPERCONDUCTOR CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For this purpose, any statements contained herein that relate to future events or conditions, including without limitation, the statements in Part II, "Item 1A. Risk Factors" and in Part I under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and located elsewhere herein regarding industry prospects, our prospective results of operations or financial position, the benefits of our acquisition of Northeast Power Systems, Inc. ("NEPSI") and Neeltran, Inc. ("Neeltran"), changes in macroeconomic and market conditions, including increasing inflation and impacts from the COVID-19 pandemic, sourcing, production disruption, material delays and global supply chain disruptions and adoption of accounting changes 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. There are a number of important factors that could materially impact the value of our common stock or cause actual results to differ materially from those indicated by such forward-looking statements. These important factors include, but are not limited to: We have a history of operating losses, which may continue in the future. Our operating results may fluctuate significantly from quarter to quarter and may fall below expectations in any particular fiscal quarter; We have a history of negative operating cash flows, and we may require additional financing in the future, which may not be available to us; We may be required to issue performance bonds or provide letters of credit, which restricts our ability to access any cash used as collateral for the bonds or letters of credit; Changes in exchange rates could adversely affect our results of operations; If we fail to maintain proper and effective internal control over financial reporting, our ability to produce accurate and timely financial statements could be impaired and may lead investors and other users to lose confidence in our financial data; We may not realize all of the sales expected from our backlog of orders and contracts; Our contracts with the U.S. government are subject to audit, modification or termination by the U.S. government and include certain other provisions in favor of the government. The continued funding of such contracts remains subject to annual congressional appropriation, which, if not approved, could reduce our revenue and lower or eliminate our profit; The COVID-19 pandemic could adversely impact our business, financial condition and results of operations; Changes in U.S. government defense spending could negatively impact our financial position, results of operations, liquidity and overall business; We rely upon third-party suppliers for the components and subassemblies of many of our Grid and Wind products, making us vulnerable to supply shortages and price fluctuations, which could harm our business; Uncertainty surrounding our prospects and financial condition may have an adverse effect on our customer and supplier relationships; We have not manufactured our Amperium wire in commercial quantities, and a failure to manufacture our Amperium wire in commercial quantities at acceptable cost and quality levels would substantially limit our future revenue and profit potential; Our success is dependent upon attracting and retaining qualified personnel and our inability to do so could significantly damage our business and prospects; A significant portion of our Wind segment revenues are derived from a single customer. If this customer's business is negatively affected, it could adversely impact our business; Our success in addressing the wind energy market is dependent on the manufacturers that license our designs; Our business and operations would be adversely impacted in the event of a failure or security breach of our or any critical third parties information technology infrastructure and networks; Failure to comply with evolving data privacy and data protection laws and regulations or to otherwise protect personal data, may adversely impact our business and financial results; Many of our revenue opportunities are dependent upon subcontractors and other business collaborators; If we fail to implement our business strategy successfully, our financial performance could be harmed; Problems with product quality or product performance may cause us to incur warranty expenses and may damage our market reputation and prevent us from achieving increased sales and market share; Many of our customers outside of the United States may be either directly or indirectly related to governmental entities, and we could be adversely affected by violations of the United States Foreign Corrupt Practices Act and similar worldwide anti-bribery laws outside the United States; We have had limited success marketing and selling our superconductor products and system-level solutions, and our failure to more broadly market and sell our products and solutions could lower our revenue and cash flow; We may acquire additional complementary businesses or technologies, which may require us to incur substantial costs for which we may never realize the anticipated benefits; Our success depends upon the commercial adoption of the REG system, which is currently limited, and a widespread commercial market for our products may not develop; Adverse changes in domestic and global economic conditions could adversely affect our operating results; We have operations in, and depend on sales in, emerging markets, including India, and global conditions could negatively affect our operating results or limit our ability to expand our operations outside of these markets. Changes in India's political, social, regulatory and economic environment may affect our financial performance; Our products face competition, which could limit our ability to acquire or retain customers; Our international operations are subject to risks that we do not face in the United States, which could have an adverse effect on our operating results; Growth of the wind energy market depends largely on the availability and size of government subsidies, economic incentives and legislative programs designed to support the growth of wind energy; Lower prices for other fuel sources may reduce the demand for wind energy development, which could have a material adverse effect on our ability to grow our Wind business; The increasing focus on environmental sustainability and social initiatives could increase our costs, and inaction could harm our reputation and adversely impact our financial results; We may be unable to adequately prevent disclosure of trade secrets and other proprietary information; Our patents may not provide meaningful protection for our technology, which could result in us losing some or all of our market position; There are a number of technological challenges that must be successfully addressed before our superconductor products can gain widespread commercial acceptance, and our inability to address such technological challenges could adversely affect our ability to acquire customers for our products; Third parties have or may acquire patents that cover the materials, processes and technologies we use or may use in the future to manufacture our Amperium products, and our success depends on our ability to license such patents or other proprietary rights; Our technology and products could infringe intellectual property rights of others, which may require costly litigation and, if we are not successful, could cause us to pay substantial damages and disrupt our business; We face risks related to our legal proceedings; We face risks related to our common stock; and the other important factors discussed under the caption "Risk Factors" in Part 1. Item 1A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2022, and our other reports filed with the SEC. These important factors, 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. Any such forward-looking statements represent management's estimates as of the date of this Quarterly Report on Form 10-Q. While we may elect to update such forward-looking statements at some point in the future, we disclaim any obligation to do so, even if subsequent events cause our views to change. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

American Superconductor®, Amperium®, AMSC®, D-VAR®, PowerModule™, D-VAR VVO®, PQ-IVR®, SeaTitan®, Gridtec™ Solutions, Windtec™ Solutions, Smarter, Cleaner...Better Energy™, Orchestrate the Rhythm and Harmony of Power on the Grid™, actiVAR®, armorVAR™, NEPSI™ and Neeltran™ and SafetyLOCK™ are trademarks or registered trademarks of American Superconductor Corporation or our subsidiaries. We reserve all of our rights with respect to our trademarks or registered trademarks regardless of whether they are so designated in this Quarterly Report on Form 10-Q by an ® or ™ symbol. All other brand names, product names, trademarks or service marks appearing in this Quarterly Report on Form 10-Q are the property of their respective holders.



## Executive Overview

We are a leading system provider of megawatt-scale resiliency solutions that orchestrate the rhythm and harmony of power on the grid™, and that protect and expand the capability of the U.S. Navy's fleet. In the power grid market, we enable electric utilities, industrial facilities, and renewable energy project developers to connect, transmit and distribute smarter, cleaner and better power through our transmission planning services and power electronics and superconductor-based systems. In the wind power market, we enable manufacturers to field highly competitive wind turbines through our advanced power electronics and control system products, engineering, and support services. Our power grid and wind products and services provide exceptional reliability, security, efficiency and affordability to our customers.

Our power system solutions help to improve energy efficiency, alleviate power grid capacity constraints, improve system resiliency, and increase the adoption of renewable energy generation. Demand for our solutions is driven by the growing needs for modernized smart grids that improve power reliability, security and quality, the U.S. Navy's effort to upgrade on-board power systems to support fleet electrification, and the need for increased renewable sources of electricity, such as wind and solar energy. Concerns about these factors have led to increased spending by corporations and the military, as well as supportive government regulations and initiatives on local, state, and national levels, including renewable portfolio standards, tax incentives and international treaties.

We manufacture products using two proprietary core technologies: PowerModule™ programmable power electronic converters and our Amperium® high temperature superconductor ("HTS") wires. These technologies and our system-level solutions are protected by a broad and deep intellectual property portfolio consisting of hundreds of patents and licenses worldwide.

We operate our business under two market-facing business units: Grid and Wind. We believe this market-centric structure enables us to more effectively anticipate and meet the needs of the U.S. Navy, electric utilities, industrial facilities, power generation project developers and wind turbine manufacturers.

- *Grid.* Through our Gridtec™ Solutions, our Grid business segment enables electric utilities, industrial facilities, and renewable energy project developers to connect, transmit and distribute power with exceptional efficiency, reliability, security and affordability. We provide transmission planning services that allow us to identify power grid congestion, poor power quality, and other risks, which help us determine how our solutions can improve network performance. These services often lead to sales of our grid interconnection solutions for wind farms and solar power plants, power quality systems and transmission and distribution cable systems. We also sell ship protection products to the U.S. Navy through our Grid business segment.
- *Wind.* Through our Windtec™ Solutions, our Wind business segment enables manufacturers to field wind turbines with exceptional power output, reliability and affordability. We supply advanced power electronics and control systems, license our highly engineered wind turbine designs, and provide extensive customer support services to wind turbine manufacturers. Our design portfolio includes a broad range of drivetrains and power ratings of 2 MW and higher. We provide a broad range of power electronics and software-based control systems that are highly integrated and designed for optimized performance, efficiency, and grid compatibility.

Our fiscal year begins on April 1 and ends on March 31. When we refer to a particular fiscal year, we are referring to the fiscal year that began on April 1 of that same year. For example, fiscal 2022 refers to the fiscal year that began on April 1, 2022. Other fiscal years follow similarly.

On October 31, 2018, we entered into a Subcontract Agreement with Commonwealth Edison Company ("ComEd") (the "Subcontract Agreement") for the manufacture and installation of the Company's resilient electric grid ("REG") system within ComEd's electric grid in Chicago, Illinois (the "Project"). As provided in the Subcontract Agreement, the Subcontract Agreement became effective upon the signing of an amendment by us and the U.S. Department of Homeland Security ("DHS") to the existing contract (the "Prime Contract") between us and DHS on June 20, 2019. Unless terminated earlier by us, ComEd or DHS according to the terms of the Subcontract Agreement, the term of the Subcontract Agreement will continue until we complete our warranty obligations under the Subcontract Agreement. Under the terms of the Subcontract Agreement, we agreed, among other things, to provide the REG system and to supervise ComEd's installation of the REG system in Chicago. As part of our separate cost sharing arrangement with DHS under the Prime Contract, we received funding provided by DHS in connection with the Subcontract Agreement of approximately \$10.0 million, which represents the total amount of revenue we recognized over the term of the Subcontract Agreement and includes \$1.0 million that we have agreed to reimburse ComEd for costs incurred by ComEd while undertaking its tasks under the Subcontract Agreement (the "Reimbursement Amount"). In addition, we are required to deliver an irrevocable letter of credit in the amount of \$5.0 million to secure certain Company obligations under the Subcontract Agreement, which we have done, and deposited \$5.0 million in an escrow account as collateral to secure such letter of credit. We expect that this irrevocable letter of credit will be terminated and the full \$5.0 million will be returned from escrow to us during the quarter ending March 31, 2023. ComEd has agreed to provide the site and provide all civil engineering work required to support the operation and integration of the REG system into ComEd's electric grid. Other than the Reimbursement Amount, ComEd is responsible for its own costs and expenses. DHS's approval to commence with construction was obtained on June 20, 2019. Substation work on the project began in late 2019 and we successfully integrated the REG system on Com Ed's electric power grid and the REG system became fully operational in August 2021.

We are experiencing substantial inflationary pressure in our supply chain and some delays in sourcing materials needed for our products, resulting in some production disruption both of which have increased our cost of revenues and decreased gross margin. Changes in macroeconomic and market conditions arising from the COVID-19 pandemic, or for other reasons, such as the ongoing war between Russia and Ukraine, inflation, rising interest rates, labor force availability, sourcing, material delays and global supply chain disruptions could have a material adverse effect on our business, financial condition and results of operation.

From time-to-time we may undertake restructuring activities in order to align our global organization in a manner that we believe will better position us to achieve our long-term goals. In January 2023, we undertook a reduction in force that involved approximately 5% of our global workforce. This restructuring is expected to incur an immaterial amount of cash expense and to result in annualized cost savings of approximately \$5 million, beginning in fiscal year 2023.

### **Critical Accounting Policies and Estimates**

The preparation of the unaudited condensed consolidated financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ under different assumptions or conditions. There were no significant changes in the critical accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2022.

### **Results of Operations**

#### **Three and nine months ended December 31, 2022, compared to the three and nine months ended December 31, 2021**

#### **Revenues**

Total revenues decreased 11% to \$23.9 million for the three months ended December 31, 2022 and total revenues decreased 7% to \$74.2 million for the nine months ended December 31, 2022 compared to \$26.8 million and \$80.1 million for the three and nine months ended December 31, 2021, respectively. Our revenues are summarized as follows (in thousands):

	<b>Three Months Ended December 31,</b>		<b>Nine Months Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
<b>Revenues:</b>				
Grid	\$ 20,809	\$ 25,050	\$ 66,337	\$ 73,169
Wind	3,072	1,749	7,904	6,957
Total	<u>\$ 23,881</u>	<u>\$ 26,799</u>	<u>\$ 74,241</u>	<u>\$ 80,126</u>

Our Grid business unit accounted for 87% and 89% of total revenues for the three and nine months ended December 31, 2022, respectively, compared to 93% and 91% for the three and nine months ended December 31, 2021, respectively. Our Grid business unit revenues decreased 17% to \$20.8 million in the three months ended December 31, 2022, from \$25.0 million in the three months ended December 31, 2021. Our Grid business unit revenues decreased 9% to \$66.3 million in the nine months ended December 31, 2022, from \$73.2 million in the nine months ended December 31, 2021. The decrease in the Grid business unit revenue in the three and nine months ended December 31, 2022, was primarily driven by lower D-VAR revenues than in the prior year periods.

Our Wind business unit accounted for 13% and 11% of total revenues for the three and nine months ended December 31, 2022, respectively, compared to 7% and 9% for the three and nine months ended December 31, 2021, respectively. Revenues in the Wind business unit increased 76% and 14% to \$3.1 million and \$7.9 million in the three and nine months ended December 31, 2022, from \$1.7 million and \$7.0 million in the three and nine months ended December 31, 2021, respectively. The increase in the three and nine months ended December 31, 2022, was driven by additional shipments of electrical control systems ("ECS") to Inox in the three months ended December 31, 2022.

### **Cost of Revenues and Gross Margin**

Cost of revenues increased by 1% to \$23.4 million for the three months ended December 31, 2022, compared to \$23.2 million for the three months ended December 31, 2021. Cost of revenues decreased by less than 1% to \$69.5 million for the nine months ended December 31, 2022, compared to \$69.9 million for the nine months ended December 31, 2021. Gross margin was 2% and 6% for the three and nine months ended December 31, 2022, respectively, compared to 13% for both the three and nine months ended December 31, 2021. The decrease in gross margin in the three and nine months ended December 31, 2022, was due to lower revenues, contract losses, an unfavorable product mix and inflation pressure in our supply chain.

## Operating Expenses

### Research and development

Research and development ("R&D") expense decreased 22% in the three months ended December 31, 2022, to \$2.1 million from \$2.7 million in the three months ended December 31, 2021. R&D expense decreased 15% in the nine months ended December 31, 2022, to \$7.1 million from \$8.4 million in the nine months ended December 31, 2021. The decrease in R&D expense was due to lower overall compensation expense and an increase in utilization of our research engineers supporting funded projects.

### Selling, general, and administrative

Selling, general and administrative ("SG&A") expenses increased 6% in the three months ended December 31, 2022, to \$7.2 million from \$6.8 million in the three months ended December 31, 2021. The increase in SG&A expense in the three months ended December 31, 2022, was due to higher stock compensation expense than in the prior year period. SG&A expenses increased 7% to \$22.1 million in the nine months ended December 31, 2022, compared to \$20.6 million in the nine months ended December 31, 2021. The increase in SG&A expense in the nine months ended December 31, 2022, was due to higher overall sales expense than in the prior year period.

### Amortization of acquisition related intangibles

We recorded amortization expense related to our core technology and know-how, customer relationships, and other intangible assets of \$0.7 million and \$2.1 million in the three and nine months ended December 31, 2022, respectively, and \$0.6 million and \$1.8 million in the three and nine months ended December 31, 2021, respectively. The increase in amortization expense is a result of additional expense tied to the acquisition of Neeltran.

### Change in fair value of contingent consideration

The change in fair value of our contingent consideration for the earnout payment on the NEPSI Acquisition resulted in a gain of \$0.2 million and \$0.3 million in the three and nine months ended December 31, 2022, respectively, compared to a gain of \$2.1 million and \$4.4 million in the three and nine months ended December 31, 2021, respectively. The change in the fair value was primarily driven by a decreased likelihood of achieving certain revenue targets and a decline in the Company's stock price.

## Operating loss

Our operating loss is summarized as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	2021	2022	2021
<b>Operating loss:</b>				
Grid	\$ (7,064)	\$ (3,691)	\$ (20,840)	\$ (14,873)
Wind	(924)	(1,678)	(2,178)	(2,236)
Unallocated corporate expenses	(1,221)	989	(3,152)	927
<b>Total</b>	<b>\$ (9,209)</b>	<b>\$ (4,380)</b>	<b>\$ (26,170)</b>	<b>\$ (16,182)</b>

Our Grid business segment generated operating losses of \$7.1 million and \$20.9 million in the three and nine months ended December 31, 2022, compared to operating losses of \$3.7 million and \$14.9 million in the three and nine months ended December 31, 2021. The increase in the Grid business unit operating loss in the three months ended December 31, 2022, was due to lower gross margins due to an unfavorable product mix, and higher operating expenses. The increase in the Grid business unit operating loss in the nine months ended December 31, 2022 was due to lower revenues and gross margins.

Our Wind business segment generated operating losses of \$0.9 million and \$2.2 million in the three and nine months ended December 31, 2022, compared to operating losses of \$1.7 million and \$2.2 million in the three and nine months ended December 31, 2021, respectively. The decrease in the Wind business unit operating loss was due to higher revenues and gross margins.

Unallocated corporate expenses included a gain on contingent consideration of \$0.2 million and \$0.3 million in the three and nine months ended December 31, 2022. Unallocated corporate expenses consisted of a gain on contingent consideration of \$2.1 million and \$4.4 million in the three and nine months ended December 31, 2021, respectively. Additionally, unallocated corporate expenses primarily consisted of stock-based compensation expense of \$1.4 million and \$1.1 million in the three months ended December 31, 2022 and 2021, respectively, and \$3.5 million in each of the nine months ended December 31, 2022 and 2021, respectively.

### Interest income, net

Interest income, net, was less than \$0.1 million in the three months ended December 31, 2022 and 2021, respectively. Interest income, net, was \$0.1 million in the nine months ended December 31, 2022 and less than \$0.1 million in the nine months ended December 31, 2021.

### China dissolution

China dissolution was \$1.9 million in the nine months ended December 31, 2022 compared to no activity in the three and nine months ended December 31, 2021. The increase in China dissolution during the nine months ended December 31, 2022, was driven by the liquidation of our China entity, resulting in a foreign currency gain/loss from the cumulative translation release of \$1.9 million in the nine months ended December 31, 2022 in which there was no similar transaction in the three and nine months ended December 31, 2021.

### Other income (expense), net

Other expense, net, was \$0.3 million and less than \$0.1 million in the three and nine months ended December 31, 2022, respectively, compared to other income, net, of less than \$0.1 million in both the three and nine months ended December 31, 2021. The increase in other expense during the three and nine months ended December 31, 2022, was driven by the impacts of unfavorable fluctuations in foreign currencies during the respective periods.

### Income Taxes

Income tax expense was \$0.1 million in each of the three and nine months ended December 31, 2022. Income tax expense was less than \$0.1 million in the three months ended December 31, 2021 and income tax benefit was \$1.9 million in the nine months ended December 31, 2021. The increase in income tax expense in the three months ended December 31, 2022 compared to the same period in fiscal 2021 was primarily due to lower withholding taxes from foreign jurisdictions in the three months ended December 31, 2022. The increase in income tax expense in the nine months ended December 31, 2022 compared to the same period in fiscal 2021 was a result of the release of the valuation allowance to offset the recording of the deferred tax liability from the Neeltran Acquisition in the nine months ended December 31, 2021.

### Net loss

Net loss was \$9.6 million and \$28.2 million in the three and nine months ended December 31, 2022, compared to \$4.3 million and \$14.2 million in the three and nine months ended December 31, 2021. The increase in net loss was driven primarily by the increased operating loss due to lower revenues and gross margins.

### Non-GAAP Financial Measure - Non-GAAP Net Loss

Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flow that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP measures included in this Quarterly Report on Form 10-Q, however, should be considered in addition to, and not as a substitute for or superior to the comparable measures prepared in accordance with GAAP.

We define non-GAAP net loss as net loss before China dissolution, stock-based compensation, amortization of acquisition-related intangibles, acquisition costs, change in fair value of contingent consideration, and other non-cash or unusual charges. We believe non-GAAP net loss assists management and investors in comparing our performance across reporting periods on a consistent basis by excluding these non-cash charges and other items that we do not believe are indicative of our core operating performance. In addition, we use non-GAAP net loss as a factor to evaluate the effectiveness of our business strategies. A reconciliation of GAAP to non-GAAP net loss is set forth in the table below (in thousands, except per share data):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2022	2021	2022	2021
Net loss	\$ (9,581)	\$ (4,324)	\$ (28,171)	\$ (14,161)
China dissolution	—	—	1,921	—
Stock-based compensation	1,440	1,120	3,492	3,513
Amortization of acquisition-related intangibles	696	690	2,096	1,979
Acquisition costs	—	—	—	681
Change in fair value of contingent consideration	(220)	(2,110)	(340)	(4,440)
Non-GAAP net loss	<u>\$ (7,665)</u>	<u>\$ (4,624)</u>	<u>\$ (21,002)</u>	<u>\$ (12,428)</u>
Non-GAAP net loss per share - basic	<u>\$ (0.27)</u>	<u>\$ (0.17)</u>	<u>\$ (0.76)</u>	<u>\$ (0.46)</u>
Weighted average shares outstanding - basic	<u>27,954</u>	<u>27,352</u>	<u>27,794</u>	<u>27,145</u>

We incurred non-GAAP net losses of \$7.7 million and \$21.0 million, or \$0.27 and \$0.76 per share, for the three and nine months ended December 31, 2022, compared to \$4.6 million and \$12.4 million, or \$0.17 and \$0.46 per share, for the three and nine months ended December 31, 2021. The increase in the non-GAAP net loss for the three and nine months ended December 31, 2022 was due to a higher operating loss driven by lower gross margin and higher operating expenses.



## Liquidity and Capital Resources

We have experienced recurring operating losses and, as of December 31, 2022, had an accumulated deficit of \$1,049 million.

Our cash requirements depend on numerous factors, including the successful completion of our product development activities, our ability to commercialize our REG and ship protection system solutions, the rate of customer and market adoption of our products, collecting receivables according to established terms, the continued availability of U.S. government funding during the product development phase of our superconductor-based products and whether Inox is successful in executing on Solar Energy Corporation of India Limited orders or in obtaining additional orders under the new central and state auction regime. We continue to closely monitor our expenses and, if required, expect to reduce our operating and capital spending to enhance liquidity.

In February 2021, we filed a shelf registration statement on Form S-3 that will expire in February 2024 (the "Form S-3"). The Form S-3 allows us to offer and sell from time-to-time up to \$250 million of common stock, debt securities, warrants or units comprised of any combination of these securities. The Form S-3 is intended to provide us flexibility to conduct registered sales of our securities, subject to market conditions, in order to fund our future capital needs. The terms of any future offering under the Form S-3 will be established at the time of such offering and will be described in a prospectus supplement filed with the SEC prior to the completion of any such offering.

As of December 31, 2022, we had cash, cash equivalents and restricted cash of \$31.4 million, compared to \$49.5 million as of March 31, 2022, a decrease of \$18.1 million. As of December 31, 2022, we had approximately \$1.8 million of cash, cash equivalents, and restricted cash in foreign bank accounts. Our cash, cash equivalents, and restricted cash are summarized as follows (in thousands):

	<u>December 31, 2022</u>	<u>March 31, 2022</u>
Cash and cash equivalents	\$ 23,685	\$ 40,584
Restricted cash	7,666	8,902
Total cash, cash equivalents, and restricted cash	\$ 31,351	\$ 49,486

For the nine months ended December 31, 2022, net cash used in operating activities was \$17.1 million, compared to \$15.9 million for the nine months ended December 31, 2021. The increase in net cash used in operations was due primarily to an increase in inventory purchases offset by accounts receivable collections in the nine months ended December 31, 2022 as compared to December 31, 2021.

For the nine months ended December 31, 2022, net cash used in investing activities was \$1.2 million, compared to \$7.1 million for the nine months ended December 31, 2021. The decrease in net cash used in investing activities was primarily due to the cash that was used to pay for the Neeltran Acquisition in the nine months ended December 31, 2021. There was no such transaction in the nine months ended December 31, 2022.

For the nine months ended December 31, 2022 and 2021, respectively, net cash provided by financing activities remained consistent at less than \$0.1 million.

As of December 31, 2022, we had \$1.0 million of restricted cash included in long-term assets and \$6.6 million of restricted cash included in current assets. These amounts of restricted cash primarily represent deposits to secure letters of credit for various supply contracts and long-term projects, including the irrevocable letter of credit in the amount of \$5.0 million to secure certain of our obligations under the Subcontract Agreement with ComEd. These deposits are held in interest bearing accounts.

We are a party to many contractual obligations involving commitments to make payments to third parties. These obligations impact our short-term and long-term liquidity and capital resource needs. Certain contractual obligations are reflected on the consolidated balance sheet as of December 31, 2022, while others are considered future commitments. We have various contractual arrangements, under which we have committed to purchase certain minimum quantities of goods or services on an annual basis. For information regarding our other contractual obligations, refer to Note 13, "Contingent Consideration," Note 14, "Debt," Note 15, "Leases" and Note 16, "Commitments and Contingencies" to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

We believe we have sufficient available liquidity to fund our operations and capital expenditures for the next twelve months. In addition, we may seek to raise additional capital, which could be in the form of loans, convertible debt or equity, to fund our operating requirements and capital expenditures. Our liquidity is highly dependent on our ability to increase revenues, improve upon gross margins, control our operating costs, and raise additional capital, if necessary. There can be no assurance that we will be able to raise additional capital on favorable terms or at all, or execute on any other means of improving our liquidity as described above. Additionally, the impact of the COVID-19 pandemic and adverse macroeconomic conditions on the global financial markets may reduce our ability to raise additional capital, if necessary, which could negatively impact our liquidity.

### **Legal Proceedings**

We are involved in legal and administrative proceedings and claims of various types. See Part II, Item 1, “Legal Proceedings,” for additional information. We record a liability in our consolidated financial statements for these matters when a loss is known or considered probable and the amount can be reasonably estimated. We review these estimates each accounting period as additional information is known and adjust the loss provision when appropriate. If a matter is both probable to result in liability and the amounts of loss can be reasonably estimated, we estimate and disclose the possible loss or range of loss to the extent necessary to make the consolidated financial statements not misleading. If the loss is not probable or cannot be reasonably estimated, a liability is not recorded in our consolidated financial statements.

### **Recent Accounting Pronouncements**

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in ASU 2016-13 will provide more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. Following the release of ASU 2019-10 in November 2019, the new effective date, as long as we remain a smaller reporting company, would be annual reporting periods beginning after December 15, 2022. We have evaluated the impact of the adoption of ASU 2016-13, and do not expect it to have a material impact on our consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The amendments in ASU 2021-08 will improve the accounting for acquired revenue contracts with customers in a business combination. Following the release of ASU 2021-08 in October 2021, the new effective date will be annual reporting periods beginning after December 15, 2022. We have evaluated the impact of the adoption of ASU 2021-08, and do not expect it to have a material impact on our consolidated financial statements.

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*. The amendments in ASU 2021-10 improve financial reporting by requiring disclosures that increase the transparency of transactions with government accounted for by applying a grant or contribution accounting model by analogy. Following the release of ASU 2021-10 in November 2021, the effective date was annual reporting periods beginning after December 15, 2021. As of April 1, 2022, we have adopted ASU 2021-10 and noted no material impact on our consolidated financial statements.

We do not believe that, outside of those disclosed here, there are any other recently issued accounting pronouncements that will have a material impact on our consolidated financial statements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

### ITEM 4. CONTROLS AND PROCEDURES

#### *Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2022. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2022, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

#### *Changes in Internal Control over Financial Reporting*

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II—OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

None

**ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors described in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2022, filed with the SEC on June 1, 2022.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The Company's stock repurchase activity during the three months ended December 31, 2022 was as follows:

<b>Month</b>	<b>Total Number of Shares Purchased(a)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (in millions)</b>
October 1, 2022 - October 31, 2022	—	—	—	
November 1, 2022 - November 30, 2022	—	—	—	
December 1, 2022 - December 31, 2022	—	—	—	
Total	—	—	—	

(a) During the three months ended December 31, 2022, we did not repurchase shares in connection with our stock-based compensation plans.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable

**ITEM 5. OTHER INFORMATION**

None

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				
		Form	File No.	Exhibit	Filing Date	Filed/Furnished Herewith
31.1	<a href="#">Chief Executive Officer—Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					*
31.2	<a href="#">Chief Financial Officer—Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					*
32.1	<a href="#">Chief Executive Officer—Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>					**
32.2	<a href="#">Chief Financial Officer—Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>					**
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					*
101.SCH	Inline XBRL Taxonomy Extension Schema Document.					*
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document.					*
101.DEF	Inline XBRL Definition Linkbase Document.					*
101.LAB	Inline XBRL Taxonomy Label Linkbase Document.					*
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document.					*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					

\* Filed herewith

\*\* Furnished herewith

Attached as Exhibits 101 to this report are the following formatted in inline XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheet as of December 31, 2022 and March 31, 2022 (ii) Condensed Statements of Operations and Income for the three and nine months ended December 31, 2022 and 2021, (iii) Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and nine months ended December 31, 2022 and 2021, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2022 and 2021, and (v) Notes to Condensed Consolidated Financial Statements.

**SIGNATURE**

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

AMERICAN SUPERCONDUCTOR CORPORATION

Date: February 1, 2023

**By: \_\_\_\_\_** /s/ **John W. Kosiba, Jr.**  
John W. Kosiba, Jr.  
Senior Vice President, Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)

**AMERICAN SUPERCONDUCTOR CORPORATION**  
**CERTIFICATIONS**

I, Daniel P. McGahn, certify that:

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

Date: February 1, 2023

By:

/s/ **Daniel P. McGahn**

Daniel P. McGahn  
Chief Executive Officer

**AMERICAN SUPERCONDUCTOR CORPORATION  
CERTIFICATIONS**

I, John W. Kosiba, Jr., certify that:

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

Date: February 1, 2023

By:

/s/ John W. Kosiba, Jr.

John W. Kosiba, Jr.  
Chief Financial Officer



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

In connection with the Quarterly Report on Form 10-Q of American Superconductor Corporation (the "Company") for the period ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Daniel P. McGahn, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: February 1, 2023

By:

/s/ **Daniel P. McGahn**

Daniel P. McGahn  
Chief Executive Officer

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

In connection with the Quarterly Report on Form 10-Q of American Superconductor Corporation (the "Company") for the period ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, John W. Kosiba, Jr., Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: February 1, 2023

By: /s/ **John W. Kosiba, Jr.**

---

John W. Kosiba, Jr.  
Chief Financial Officer