AMERICAN SUPERCONDUCTOR CORP /DE/
Form 10-Q
August 09, 2016

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

FORM 10-Q

x Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: June 30, 2016
¨ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.
Commission File Number: 0-19672

American Superconductor Corporation
(Exact name of registrant as specified in its charter)

Delaware	04-2959321
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
64 Jackson Road, Devens, Massachusetts	01434
(Address of principal executive offices)	(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)

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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
Shares outstanding of the Registrant's common stock:

Common Stock, par value $0.01 per share	14,188,646
Class	Outstanding as of August 3, 2016

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AMERICAN SUPERCONDUCTOR CORPORATION
PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2016	March 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$35,211	$39,330
Accounts receivable, net	7,039	19,264
Inventory	28,887	18,512
Prepaid expenses and other current assets	4,086	5,778
Restricted cash	441	457
Total current assets	75,664	83,341
Property, plant and equipment, net	48,318	49,778
Intangibles, net	712	854
Restricted cash	934	934
Deferred tax assets	94	96
Other assets	329	315
Total assets	$126,051	$135,318
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$24,694	$23,156
Note payable, current portion, net of discount of $119 as of June 30, 2016 and $42 as of March 31, 2016	3,047	2,624
Derivative liabilities	3,905	3,227
Deferred revenue	12,752	12,000
Total current liabilities	44,398	41,007
Note payable, net of discount of $133 as of March 31, 2016	—	1,367
Deferred Revenue	8,344	9,269
Deferred tax liabilities	63	63
Other liabilities	57	63
Total liabilities	52,862	51,769
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock	143	141
Additional paid-in capital	1,012,918	1,011,813
Treasury stock, at cost	(1,341)	(881)
Accumulated other comprehensive loss	8	660
Accumulated deficit	(938,539)	(928,184)
Total stockholders' equity	73,189	83,549
Total liabilities and stockholders' equity	$126,051	$135,318

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 June 30,	
	2016	2015
Revenues	$13,345	$23,723
Cost of revenues	12,482	20,503
Gross profit	863	3,220
Operating expenses:		
Research and development	2,952	3,162
Selling, general and administrative	7,216	7,535
Impairment of minority interest investment	—	741
Amortization of acquisition related intangibles	39	39
Total operating expenses	10,207	11,477
Operating loss	(9,344)	(8,257)
Change in fair value of derivatives and warrants	(678)	800
Interest expense, net	(135)	(318)
Other income (expense), net	126	(772)
Loss before income tax expense	(10,031)	(8,547)
Income tax expense	324	574
Net loss	$(10,355)	$(9,121)
Net loss per common share		
Basic	$(0.76)	$(0.75)
Diluted	$(0.76)	$(0.75)
Weighted average number of common shares outstanding		
Basic	13,676	12,111
Diluted	13,676	12,111

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)

	Three months ended June 30,	
	2016	2015
Net loss	$(10,355)	$(9,121)
Other comprehensive loss, net of tax:		
Foreign currency translation (losses) gains	(652)	430
Total other comprehensive loss (gain), net of tax	(652)	430
Comprehensive loss	$(11,007)	$(8,691)

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)

	Three months ended June 30, 2016	2015
Cash flows from operating activities:		
Net loss	$(10,355)	$(9,121)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	1,871	2,028
Stock-based compensation expense	999	1,128
Impairment of minority interest investment	—	746
Provision for excess and obsolete inventory	272	602
Write-off prepaid taxes	—	820
Loss from minority interest investment	—	356
Change in fair value of derivatives and warrants	678	(800)
Non-cash interest expense	56	111
Other non-cash items	(307)	553
Changes in operating asset and liability accounts:		
Accounts receivable	12,192	1,414
Inventory	(10,750)	2,968
Prepaid expenses and other current assets	1,555	271
Accounts payable and accrued expenses	1,650	(3,024)
Deferred revenue	79	(1,087)
Net cash used in operating activities	(2,060)	(3,035)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(281)	(197)
Proceeds from the sale of property, plant and equipment	15	7
Change in restricted cash	16	(4)
Change in other assets	(21)	130
Net cash used in investing activities	(271)	(64)
Cash flows from financing activities:		
Employee taxes paid related to net settlement of equity awards	(461)	(98)
Repayment of debt	(1,000)	(1,000)
Proceeds from public equity offering, net	—	22,281
Net cash (used in) / provided by financing activities	(1,461)	21,183
Effect of exchange rate changes on cash and cash equivalents	(327)	(13)
Net (decrease) / increase in cash and cash equivalents	(4,119)	18,071
Cash and cash equivalents at beginning of period	39,330	20,490
Cash and cash equivalents at end of period	$35,211	$38,561
Supplemental schedule of cash flow information:		
Cash paid for income taxes, net of refunds	$112	$329
Issuance of common stock to settle liabilities	107	107

Cash paid for interest	108	220

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

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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 ("AMSC" or the "Company") was founded on April 9, 1987. The Company is a leading provider of megawatt-scale solutions that lower the cost of wind power and enhance the performance of the power grid. In the wind power market, the Company enables manufacturers to field wind turbines through its advanced engineering, support services and power electronics products. In the power grid market, the Company enables electric utilities and renewable energy project developers to connect, transmit and distribute power through its transmission planning services and power electronics and superconductor-based products. The Company's wind and power grid products and services provide exceptional reliability, security, efficiency and affordability to its customers.
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 June 30, 2016 and 2015 and the financial position at June 30, 2016.
Liquidity
The Company has experienced recurring operating losses and as of June 30, 2016, the Company had an accumulated deficit of $938.5 million. In addition, the Company has experienced recurring negative operating cash flows. At June 30, 2016, the Company had cash and cash equivalents of $35.2 million. Cash used in operations for the three months ended June 30, 2016 was $2.1 million.
From April 1, 2011 through the date of this filing, the Company has reduced its global workforce substantially. The Company has taken actions to consolidate certain business operations to reduce facility costs. As of June 30, 2016, the Company had a global workforce of 379 persons. The Company plans to closely monitor its expenses and, if required, expects to further reduce operating costs and capital spending to enhance liquidity.
Over the last several years, the Company has entered into several debt and equity financing arrangements in order to enhance liquidity. Since April 1, 2012, the Company has generated aggregate cash flows from financing activities of $69.5 million. This amount includes proceeds from an April 2015 equity offering, which generated net proceeds of approximately $22.3 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company. See Note 9, "Debt", and Note 11 "Stockholders Equity" for further discussion of these financing arrangements. The Company believes that it is in compliance with the covenants and restrictions included in the agreements governing its debt arrangements as of June 30, 2016.

In December 2015, the Company entered into a set of strategic agreements valued at approximately $210.0 million with Inox Wind Ltd. ("Inox"), which includes a multi-year supply contract pursuant to which the Company will supply electric control systems to Inox and a license agreement allowing Inox to manufacture a limited number of electrical control systems over the next three to four years. After this initial three to four year period, Inox agreed that the Company will continue as Inox's preferred supplier and Inox will be required to purchase from the Company a majority of its electric control systems requirements for an additional three-year period. As of the date of this Quarterly Report on Form 10-Q, Inox has made all of the pre-payments necessary to allow the Company to begin shipping electrical control systems under the supply contract. These agreements are expected to provide a foundation for the business as the Company pursues its longer-term objectives.

On March 11, 2016, the Company sold 100% of its minority share investment in Tres Amigas LLC ("Tres Amigas") to an investor for $0.6 million. The Company received $0.3 million according to the terms of the purchase agreement upon closing, which was recorded as a gain during the three months ended March 31, 2016. The final $0.3 million is to be paid when Tres Amigas achieves the earlier of certain agreed-upon financing conditions, which is expected to occur during the third quarter of fiscal 2016. See Note 13, “Minority Investments”, for further information about such investment.

The Company believes it has sufficient liquidity to fund its operations, capital expenditures and scheduled cash payments under its debt obligations for the next twelve months. The Company's liquidity is highly dependent on its ability to increase revenues, its ability to control its operating costs, its ability to maintain compliance with the covenants and restrictions on its debt obligations (or obtain waivers from its lender in the event of non-compliance), and its ability to raise additional capital, if necessary. There can be no assurance that the Company will be able to continue to raise additional capital from other sources or execute on any other means of improving liquidity described above.

2. 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 months ended June 30, 2016 and 2015 (in thousands):

	Three months ended June 30,	
	2016	2015
Cost of revenues	$50	$97
Research and development	30	196
Selling, general and administrative	919	835
Total	$999	$1,128

During the three months ended June 30, 2016 and 2015, the Company granted 161,000 and 364,695 restricted stock awards, respectively. These awards generally vest over 3 years. Awards for restricted stock include both time-based and performance-based awards. For options and 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 outstanding stock options was $0.5 million at June 30, 2016. This expense will be recognized over a weighted average expense period of approximately 2.2 years. The total unrecognized compensation cost for unvested outstanding restricted stock was $3.3 million at June 30, 2016. This expense will be recognized over a weighted-average expense period of approximately 2.0 years. The Company did not grant any stock options during the three months ended June 30, 2016 or 2015.

3. 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. For each of the three months ended June 30, 2016 and 2015, 1.6 million shares were not included in the calculation of diluted EPS as they were considered anti-dilutive, of which 0.4 million relate to outstanding stock options, and 1.2 million relate to outstanding warrants, respectively.

The following table reconciles the numerators and denominators of the earnings per share calculation for the three months ended June 30, 2016 and 2015 (in thousands, except per share data):

	Three months ended June 30, 2016	2015
Numerator:		
Net loss	(10,355)	(9,121)
Denominator:		
Weighted-average shares of common stock outstanding	14,132	12,312
Weighted-average shares subject to repurchase	(456)	(201)
Shares used in per-share calculation basic	13,676	12,111
Shares used in per-share calculation diluted	13,676	12,111
Net loss per share basic	(0.76)	(0.75)
Net loss per share diluted	(0.76)	(0.75)

4. 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.