

AMERICAN SUPERCONDUCTOR CORP /DE/
Form 10-Q
November 03, 2015

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: September 30, 2015

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)	04-2959321 (I.R.S. Employer Identification No.)
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64 Jackson Road, Devens, Massachusetts (Address of principal executive offices)	01434 (Zip Code)
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(978) 842-3000

(Registrant's telephone number, including area code)

N/A

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(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 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 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 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

Shares outstanding of the Registrant's common stock:

Common Stock, par value \$0.01 per share	14,001,658
Class	Outstanding as of October 29, 2015

AMERICAN SUPERCONDUCTOR CORPORATION

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AMERICAN SUPERCONDUCTOR CORPORATION

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	September 30, 2015	March 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$32,572	\$20,490
Accounts receivable, net	11,119	9,879
Inventory	16,150	20,596
Prepaid expenses and other current assets	8,263	10,764
Restricted cash	3,281	2,822
Total current assets	71,385	64,551
Property, plant and equipment, net	52,677	56,097
Intangibles, net	1,138	1,422
Restricted cash	795	1,236
Deferred tax assets	7,766	7,766
Other assets	499	2,753
Total assets	\$134,260	\$133,825
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$17,980	\$21,615
Note payable, current portion, net of discount of \$136 as of September 30, 2015 and \$244 as of March 31, 2015	3,864	3,756
Derivative liabilities	1,498	2,999
Deferred revenue	9,692	11,019
Deferred tax liabilities	7,843	7,843
Total current liabilities	40,877	47,232
Note payable, net of discount of \$191 as of September 30, 2015 and \$290 as of March 31, 2015	1,976	3,877
Deferred revenue	3,404	2,756
Other liabilities	377	67
Total liabilities	46,634	53,932
Commitments and contingencies (Note 13)		

Stockholders' equity:		
Common stock	141	96
Additional paid-in capital	1,010,220	985,921
Treasury stock, at cost	(881)	(771)
Accumulated other comprehensive income (loss)	10	(308)
Accumulated deficit	(921,864)	(905,045)
Total stockholders' equity	87,626	79,893
Total liabilities and stockholders' equity	\$ 134,260	\$ 133,825

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 September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Revenues	\$19,004	\$12,455	\$42,727	\$24,151
Cost and operating expenses:				
Cost of revenues	15,992	13,773	36,495	25,860
Research and development	3,003	3,078	6,165	6,198
Selling, general and administrative	6,773	8,046	14,308	15,984
Arbitration award expense	-	10,188	-	10,188
Restructuring and impairments	38	3,731	779	4,909
Amortization of acquisition related intangibles	39	39	78	79
Total operating expenses	25,845	38,855	57,825	63,218
Operating loss	(6,841)	(26,400)	(15,098)	(39,067)
Change in fair value of derivatives and warrants	701	795	1,501	760
Interest expense, net	(286)	(496)	(603)	(1,030)
Other (expense) income, net	(397)	740	(1,169)	588
Loss before income tax expense	(6,823)	(25,361)	(15,369)	(38,749)
Income tax expense	875	62	1,450	190
Net loss	\$(7,698)	\$(25,423)	\$(16,819)	\$(38,939)
Net loss per common share				
Basic	\$(0.57)	\$(3.12)	\$(1.31)	\$(4.89)
Diluted	\$(0.57)	\$(3.12)	\$(1.31)	\$(4.89)
Weighted average number of common shares outstanding				
Basic	13,595	8,147	12,808	7,959
Diluted	13,595	8,147	12,808	7,959

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

AMERICAN SUPERCONDUCTOR CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(In thousands)

	Three months ended September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Net loss	\$ (7,698)	\$ (25,423)	\$ (16,819)	\$ (38,939)
Other comprehensive (loss) income, net of tax:				
Foreign currency translation (losses) gains	(111)	(989)	319	(1,090)
Total other comprehensive (loss) income, net of tax	(111)	(989)	319	(1,090)
Comprehensive loss	\$ (7,809)	\$ (26,412)	\$ (16,500)	\$ (40,029)

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)

	Six months ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$(16,819)	\$(38,939)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	4,009	4,901
Stock-based compensation expense	1,834	3,099
Impairment of long-lived and intangible assets	746	3,464
Provision for excess and obsolete inventory	829	1,285
Write-off prepaid taxes	511	-
Loss on minority interest investments	356	410
Change in fair value of derivatives and warrants	(1,501)	(760)
Non-cash interest expense	207	343
Other non-cash items	921	(860)
Changes in operating asset and liability accounts:		
Accounts receivable	(1,196)	(2,264)
Inventory	3,478	(5,283)
Prepaid expenses and other current assets	2,957	(1,533)
Accounts payable and accrued expenses	(3,337)	4,154
Accrued arbitration liability	-	10,188
Deferred revenue	(762)	10,426
Net cash used in operating activities	(7,767)	(11,369)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(310)	(514)
Proceeds from the sale of property, plant and equipment	7	8
Change in restricted cash	(16)	2,782
Change in other assets	91	(12)
Net cash (used in) provided by investing activities	(228)	2,264
Cash flows from financing activities:		
Employee taxes paid related to net settlement of equity awards	(109)	(400)
Repayment of debt	(2,000)	(3,641)
Proceeds from public equity offering, net	22,281	4,825
Proceeds from exercise of employee stock options and ESPP	30	60
Net cash provided by financing activities	20,202	844
Effect of exchange rate changes on cash and cash equivalents	(125)	(174)
Net increase/(decrease) in cash and cash equivalents	12,082	(8,435)
Cash and cash equivalents at beginning of year	20,490	43,114
Cash and cash equivalents at end of year	\$32,572	\$34,679

Supplemental schedule of cash flow information:

Cash paid for income taxes, net of refunds	\$758	\$226
Issuance of common stock to settle liabilities	197	1,528
Cash paid for interest	391	684

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 (“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 September 30, 2015 and 2014 and the financial position at September 30, 2015.

On March 24, 2015, the Company effected a 1-for-10 reverse stock split of its common stock. Trading of the Company’s common stock reflected the reverse stock split beginning on March 25, 2015. Unless otherwise indicated, all historical references to shares of common stock, shares of restricted stock, restricted stock units, shares underlying options, warrants or calculations that use common stock for per share financial reporting have been adjusted for comparative purposes to reflect the impact of the 1-for-10 reverse stock split as if it had occurred at the beginning of the earliest period presented.

Liquidity

The Company has experienced recurring operating losses and as of September 30, 2015, the Company had an accumulated deficit of \$921.9 million. In addition, the Company has experienced recurring negative operating cash flows. At September 30, 2015, the Company had cash and cash equivalents of \$32.6 million. Cash used in operations for the six months ended September 30, 2015 was \$7.8 million.

From April 1, 2011 through the date of this filing, the Company has reduced its global workforce substantially. The Company is currently in the process of consolidating certain business operations to reduce facility costs. As of September 30, 2015, the Company had a global workforce of 303 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 \$74.0 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 10, "Debt", and Note 12 "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 September 30, 2015.

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.

On October 6, 2015, 100% of the outstanding common stock of Blade Dynamics was acquired by a subsidiary of General Electric Company. After deducting transaction expenses, the Company received net proceeds of \$2.5 million from the sale, which will be recorded as a gain in the third fiscal quarter ending December 31, 2015. Additionally, under the terms of the purchase agreement, the Company may be entitled to receive up to an additional \$1.6 million in proceeds, upon the successful achievement of certain milestones by Blade Dynamics over the next three years.

The Company had recorded a charge of \$3.5 million during the six months ended September 30, 2014 to fully impair its investment in Blade Dynamics. The Company no longer believes its investment in Tres Amigas, LLC, a Delaware limited liability company (“Tres Amigas”) is recoverable. The Company fully impaired its remaining investment, recording a charge of \$0.7 million during the six months ended September 30, 2015. (See Note 14, “Minority Investments”, for further information about such investment).

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 and six months ended September 30, 2015 and 2014 (in thousands):

	Three months ended September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Cost of revenues	\$61	\$194	\$158	\$346
Research and development	87			