

AMERICAN SUPERCONDUCTOR CORP /DE/
Form DEF 14A
June 23, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- | | | | |
|-------------------------------------|--|--------------------------|---|
| <input type="checkbox"/> | Preliminary Proxy Statement | <input type="checkbox"/> | Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| <input checked="" type="checkbox"/> | Definitive Proxy Statement | | |
| <input type="checkbox"/> | Definitive Additional Materials | | |
| <input type="checkbox"/> | Soliciting Material Pursuant to § 240.14a-12 | | |

American Superconductor Corporation

(Name of Registrant as Specified in Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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1. Amount previously paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

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AMERICAN SUPERCONDUCTOR CORPORATION

Two Technology Drive

Westborough, Massachusetts 01581

Notice of Annual Meeting of Stockholders to

be Held on Thursday, July 27, 2006

The Annual Meeting of Stockholders of American Superconductor Corporation (the Company) will be held at the Company's principal office, Two Technology Drive, Westborough, MA 01581, on Thursday, July 27, 2006 at 9:00 a.m., local time, to consider and act upon the following matters:

1. To elect directors for the ensuing year.
2. To approve an amendment to the Company's Second Amended and Restated 1997 Director Stock Option Plan to change the annual equity award to each non-employee director from the grant of a stock option for 10,000 shares of common stock to an award of 5,000 shares of common stock.
3. To ratify the selection by the Audit Committee of the Board of Directors of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the current fiscal year.
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

Stockholders of record at the close of business on June 7, 2006 will be entitled to notice of and to vote at the meeting or any adjournment thereof. The stock transfer books of the Company will remain open.

By Order of the Board of Directors,

Thomas M. Rosa, *Treasurer*

Westborough, Massachusetts

June 23, 2006

WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND MAIL IT PROMPTLY IN THE ENCLOSED ENVELOPE IN ORDER TO ENSURE REPRESENTATION OF YOUR SHARES. NO POSTAGE NEED BE AFFIXED IF THE PROXY IS MAILED IN THE UNITED STATES.

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AMERICAN SUPERCONDUCTOR CORPORATION

Two Technology Drive

Westborough, Massachusetts 01581

Proxy Statement for the Annual Meeting of Stockholders

to be Held on Thursday, July 27, 2006

GENERAL INFORMATION ABOUT ANNUAL MEETING

Distribution of Information and Solicitation of Proxies

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors (the **Board**) of American Superconductor Corporation (the **Company**) for use at the Annual Meeting of Stockholders to be held on Thursday, July 27, 2006 (the **Annual Meeting**) and at any adjournment of the Annual Meeting. All executed proxies will be voted in accordance with the stockholders' instructions, and if no choice is specified, executed proxies will be voted in favor of the matters set forth in the accompanying Notice of Meeting. Any proxy may be revoked by a stockholder at any time before its exercise by delivery of written revocation or a subsequently dated proxy to the Secretary of the Company or by voting in person at the Annual Meeting.

On June 7, 2006, the record date for the determination of stockholders entitled to vote at the Annual Meeting, there were outstanding and entitled to vote an aggregate of 33,018,168 shares of common stock of the Company (constituting all of the voting stock of the Company). Holders of common stock are entitled to one vote per share.

The Company's Annual Report for the fiscal year ended March 31, 2006 (**fiscal 2006**) is being mailed to stockholders, along with these proxy materials, on or about June 27, 2006.

The text of the Company's Annual Report on Form 10-K for the year ended March 31, 2006, as filed with the Securities and Exchange Commission (the **SEC), is included without exhibits in the Company's Annual Report. Exhibits will be provided upon written request addressed to the Company, Attention: Investor Relations, at no charge.**

Votes Required

The holders of a majority of the shares of common stock outstanding and entitled to vote at the Annual Meeting shall constitute a quorum for the transaction of business at the Annual Meeting. Shares of common stock represented in person or by proxy (including shares which abstain or do not vote with respect to one or more of the matters presented for stockholder approval) will be counted for purposes of determining whether a quorum is present at the Annual Meeting.

The affirmative vote of the holders of a plurality of the shares of common stock voting on the matter is required for the election of directors (Proposal 1). The affirmative vote of the holders of a majority of the shares of common stock voting on the matter is required for approval of the amendment to the 1997 Director Stock Option Plan, as amended (Proposal 2) and the ratification of the selection by the Audit Committee of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the current fiscal year (Proposal 3).

Shares that abstain from voting as to a particular matter, and shares held in street name by brokers or nominees who indicate on their proxies that they do not have discretionary authority to vote such shares as to a particular matter, will not be counted as votes in favor of such matter, and will also not be counted as shares voting on such matter. Accordingly, abstentions and broker non-votes will have no effect on the outcome of voting with respect to (i) the election of directors (Proposal 1), which requires the vote of the holders of a plurality of the common stock voting; (ii) the amendment to the 1997 Director Stock Option Plan (Proposal 2),

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which requires an affirmative vote of the holders of a majority of the common stock voting; or (iii) the ratification of the selection by the Audit Committee of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the current fiscal year (Proposal 3), which requires an affirmative vote of the holders of a majority of the common stock voting on the matter.

Beneficial Ownership of Common Stock

The following table sets forth the beneficial ownership of the Company's common stock as of April 30, 2006 by (i) each person who is known by the Company to beneficially own more than 5% of the outstanding shares of common stock, (ii) each director or nominee for director, (iii) each of the executive officers named in the Summary Compensation Table set forth under the caption "Executive Compensation" below (the "Senior Executives"), and (iv) all current directors and executive officers as a group:

Name of Beneficial Owner	Number of Shares Beneficially Owned (1)	Percentage of Common Stock Outstanding (2)
<i>Five Percent Stockholders</i>		
Merrill Lynch Investment Managers Limited (3)	4,551,716	13.8%
800 Scudders Mill Road		
Plainsboro, NY 08536		
<i>Directors or Nominees</i>		
Gregory J. Yurek (4)	1,849,744	5.4%
Albert J. Baciocco, Jr. (5)	77,000	*
Vikram S. Budhraj (6)	31,000	*
Peter O. Crisp (7)	136,603	*
Richard Drouin (8)	89,000	*
Andrew G.C. Sage, II (9)	151,000	*
John B. Vander Sande (10)	176,562	*
<i>Other Senior Executives</i>		
Kevin M. Bisson (11)	78,683	*
Stuart C. Karon (12)	89,786	*
Alexis P. Malozemoff (13)	226,256	*
Charles W. Stankiewicz (14)	161,132	*
Terry M. Winter (15)	56,487	*
All directors and current executive officers as a group (12 persons) (16)	3,069,700	8.7%

* Less than 1%.

- (1) The inclusion of any shares of common stock deemed beneficially owned does not constitute an admission of beneficial ownership of those shares. In accordance with the rules of the SEC, each stockholder is deemed to beneficially own any shares subject to stock options that are currently exercisable or exercisable within 60 days after April 30, 2006, and any reference below to shares subject to outstanding stock options held by the person in question refers only to such stock options.
- (2) To calculate the percentage of outstanding shares of common stock held by each stockholder, the number of shares deemed outstanding includes 32,867,754 shares outstanding as of April 30, 2006, plus any shares subject to outstanding stock options currently exercisable or exercisable within 60 days after April 30, 2006 held by the stockholder in question.
- (3)

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Information is derived from responses to a questionnaire submitted to the Company by Merrill Lynch Investment Managers Limited on May 25, 2006.

- (4) Includes 183,152 shares held jointly with Dr. Yurek's wife, 8,340 shares held by Dr. Yurek's child, 1,657,500 shares subject to outstanding stock options, 49,000 shares subject to certain restrictions on

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transfer and a repurchase right in favor of the Company, and 752 shares held indirectly through the Company's 401(k) plan. Dr. Yurek disclaims beneficial ownership of the shares held by his child.

- (5) Includes 70,000 shares subject to outstanding stock options.
- (6) Includes 30,000 shares subject to outstanding stock options.
- (7) Includes 3,000 shares held by Mr. Crisp's wife and 80,000 shares subject to outstanding stock options. Mr. Crisp disclaims beneficial ownership of the shares held by his wife.
- (8) Includes 80,000 shares subject to outstanding stock options.
- (9) Comprised of 35,000 shares owned by a limited partnership of which Mr. Sage is the general partner and 116,000 shares subject to outstanding stock options.
- (10) Includes 80,000 shares subject to outstanding stock options.
- (11) Includes 76,667 shares subject to outstanding stock options, and 539 shares held indirectly through the Company's 401(k) plan. Mr. Bisson departed the Company on March 10, 2006.
- (12) Includes 73,200 shares subject to outstanding stock options, 6,000 shares subject to certain restrictions on transfer and a repurchase right in favor of the Company, and 2,486 shares held indirectly through the Company's 401(k) plan. Mr. Karon departed the Company on June 16, 2006.
- (13) Includes 4,500 shares held in two trusts of which Dr. Malozemoff is the co-trustee, 149,000 shares subject to outstanding stock options, 12,000 shares subject to certain restrictions on transfer and a repurchase right in favor of the Company, and 2,856 shares held indirectly through the Company's 401(k) plan.
- (14) Includes 124,333 shares subject to outstanding stock options, 31,500 shares subject to certain restrictions on transfer and a repurchase right in favor of the Company, and 2,799 shares held indirectly through the Company's 401(k) plan.
- (15) Includes 30,000 shares subject to outstanding stock options, 22,000 shares subject to certain restrictions on transfer and a repurchase right in favor of the Company, and 648 shares held indirectly through the Company's 401(k) plan.
- (16) Includes 2,491,233 shares subject to outstanding stock options, 148,000 shares subject to certain restrictions on transfer and a repurchase right in favor of the Company, and 9,426 shares held indirectly through the Company's 401(k) plan. Does not include shares owned by Mr. Karon, who departed the Company on June 16, 2006, or shares owned by Mr. Bisson, who departed the Company on March 10, 2006.

CORPORATE GOVERNANCE

The Board has long believed that good corporate governance is important to ensure that the Company is managed for the long-term benefit of stockholders. The Company has recently bolstered its corporate governance practices significantly by reconstituting its Nominating Committee

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as the Nominating and Corporate Governance Committee, adopting a new Nominating and Corporate Governance Committee Charter and adopting a set of corporate governance guidelines. Complete copies of the committee charters, corporate governance guidelines and code of conduct described below have been posted to the Company's website at www.amsuper.com. Alternatively, you can request a copy of any of these documents by writing to American Superconductor Corporation, Two Technology Drive, Westborough, MA 01581, Attention: Investor Relations.

Members of the Board

Set forth below, for each director, are his name and age, his positions (if any) with the Company, his principal occupation and business experience during the past five years, the names of other public companies of which he serves as a director and the year of the commencement of his term as a director of the Company.

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Gregory J. Yurek, age 59, co-founded the Company in 1987 and has been chief executive officer since December 1989, president since June 2005 and chairman of the Board of Directors since October 1991. Dr. Yurek also served as president from March 1989 to February 2004, as vice president and chief technical officer from August 1988 until March 1989 and as chief operating officer from March 1989 until December 1989. Prior to joining the Company, Dr. Yurek was a professor of Materials Science and Engineering at MIT for 12 years. He is also a director of Nanosys, Inc. and HTS-110 Limited. Dr. Yurek has been a director of the Company since 1987.

Albert J. Baciocco, Jr., age 75, has been president of The Baciocco Group, Inc., a technical and management consulting practice in strategic planning, technology investment and implementation, since 1987. Preceding this, he served in the U.S. Navy for 34 years, principally within the nuclear submarine force and directing the Department of the Navy research and technology development enterprise, achieving the rank of Vice Admiral. Admiral Baciocco serves on several boards and committees of government, industry and academe. During the past 18 years, he has served as a director of several public corporations and is currently a director of Clipper Windpower plc. He is a trustee of the South Carolina Research Authority and a director of the Foundation for Research Development of the Medical University of South Carolina. Admiral Baciocco has been a director of the Company since April 1997.

Vikram S. Budhraja, age 58, has been president of Electric Power Group, LLC, a Pasadena, California-based consulting firm that provides management and strategic consulting services to the electric power industry, since January 2000. From 1977 to January 2000, Mr. Budhraj served in several key senior management positions at Edison International, the parent company of Southern California Edison, including: president of Edison Technology Solutions; senior vice president and head of the Power Grid Business Unit of Southern California Edison; and vice president of System Planning, Fuels and Operations of Southern California Edison. He chairs the Consortium for Electric Reliability Technology Solutions (CERTS) and worked with the U.S.-Canadian Power Systems Outage Task Force that was formed to investigate the root causes of the August 14, 2003 power blackout in the Northeast. Mr. Budhraj has previously served as a director of several organizations, including the California Independent System Operator Corporation and Soft Switching Technologies. Mr. Budhraj has been a director of the Company since March 2004.

Peter O. Crisp, age 73, served as vice chairman of Rockefeller Financial Services, Inc. from December 1997 until September 2004 and is currently a consultant. From 1969 to 1997, he was a general partner of Venrock Associates, a venture capital firm based in New York. Mr. Crisp served as a director of United States Trust Corporation until August 2004. He is also a director of several private companies. Mr. Crisp has been a director of the Company since 1987.

Richard Drouin, age 74, has been chairman of Abitibi Consolidated, the world's largest newsprint manufacturer, since 2000. Mr. Drouin was a partner at McCarthy Tétrault, a Canadian law firm, from December 1995 until December 2003. Mr. Drouin was the chairman and chief executive officer of Hydro-Quebec, a public electric utility based in Canada, from April 1988 to September 1995. Mr. Drouin is a director of Nstein Technologies, Addenda Capital and chairman of the Board of Trustees of the North American Electric Reliability Council. Mr. Drouin has been a director of the Company since February 1996.

Andrew G.C. Sage, II, age 80, has been president of Sage Capital Corporation since 1974. Immediately prior to that time, he served as president of the investment banking firm of Lehman Brothers. Throughout his career, Mr. Sage has served in board and executive positions for numerous public companies. Mr. Sage has been a director of the Company since April 1997.

John B. Vander Sande, age 62, co-founded the Company. He is the Cecil and Ida Green Distinguished Professor of Material Science, emeritus, at MIT specializing in the microstructure of materials and was associate dean and acting dean of engineering at MIT from 1992 to 1999. He was founding executive director of the Cambridge-MIT Institute from 1999 to January 2003. Dr. Vander Sande has been a director of the Company since 1990.

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Corporate Governance Guidelines

The Board has adopted corporate governance guidelines to assist in the exercise of its duties and responsibilities and to serve the best interests of the Company and its stockholders. These guidelines, which provide a framework for the conduct of the Board's business, provide that:

the principal responsibility of the directors is to oversee the management of the Company;

a majority of the members of the Board shall be independent directors;

the independent directors meet regularly in executive session;

the Board of Directors, in conjunction with the Compensation Committee, shall be responsible for reviewing and approving a management succession plan, including succession planning for the Chief Executive Officer;

directors have full and free access to management and, as necessary and appropriate, independent advisors;

new directors participate in an orientation program and all directors are expected to participate in continuing director education on an ongoing basis; and

at least annually, the Board and its committees will conduct a self-evaluation to determine whether they are functioning effectively.

Board Determination of Independence

Under applicable Nasdaq rules, a director of the Company will only qualify as an independent director if, in the opinion of the Board, that person does not have a relationship which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Board has determined that Admiral Baciocco, Mr. Budhraj, Mr. Crisp, Mr. Drouin, Mr. Sage and Dr. Vander Sande do not have relationships that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is an independent director as defined under Rule 4200(a)(15) of the Nasdaq Stock Market, Inc. Marketplace Rules.

Director Nomination Process

The process followed by the Nominating and Corporate Governance Committee to identify and evaluate director candidates includes requests to Board members and others for recommendations, meetings from time to time to evaluate biographical information and background material relating to potential candidates, and interviews of selected candidates by members of the Committee and the Board.

In considering whether to recommend any particular candidate for inclusion in the Board's slate of recommended director nominees, the Nominating and Corporate Governance Committee applies criteria set forth in the Company's corporate governance guidelines, such as the candidate's integrity, business acumen, knowledge of the Company's business and industry, experience, diligence, conflicts of interest and the ability to act in the interests of all stockholders. The Committee does not assign specific weights to particular criteria and no particular criterion is a prerequisite for each prospective nominee. The Company believes that the backgrounds and qualifications of its directors, considered as a group, should provide a composite mix of experience, knowledge and abilities that will allow the Board to fulfill its responsibilities.

Stockholders may recommend individuals to the Nominating and Corporate Governance Committee for consideration as potential director candidates by submitting their names, together with appropriate biographical information and background materials, and a statement as to whether the stockholder or group of stockholders making the recommendation has beneficially owned more than 5% of the Company's common stock for at least a year as of the date such recommendation is made, to Nominating and Corporate Governance Committee, c/o Corporate Secretary, American Superconductor Corporation, Two Technology Drive, Westborough, MA 01581.

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Assuming that appropriate biographical and background material has been provided on a timely basis, the Committee will evaluate stockholder-recommended candidates by following substantially the same process, and applying substantially the same criteria, as it follows for candidates submitted by others.

Board Meetings and Attendance

The Board met 12 times during fiscal 2006, either in person or by teleconference. During fiscal 2006, each director attended at least 75% of the aggregate of the number of Board meetings and the number of meetings held by all committees on which he then served.

Director Attendance at Annual Meeting of Stockholders

All seven directors attended the fiscal 2005 annual meeting of stockholders. The Company's corporate governance guidelines provide that directors are expected to attend the Annual Meeting of Stockholders.

Board Committees

The Board has established three standing committees—Audit, Compensation, and Nominating and Corporate Governance—each of which operates under a charter that has been approved by the Board. The Board has determined that all of the members of each of the Board's three standing committees are independent as defined under the rules of the Nasdaq Stock Market, including, in the case of all members of the Audit Committee, the independence requirements contemplated by Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act).

Audit Committee

The Audit Committee's responsibilities include:

appointing, approving the compensation of and assessing the independence of the Company's independent registered public accounting firm;

overseeing the work of the Company's independent registered public accounting firm, including through the receipt and consideration of certain reports from the independent registered public accounting firm;

reviewing and discussing with management and the independent registered public accounting firm the Company's annual and quarterly financial statements and related disclosures;

monitoring the Company's internal control over financial reporting, disclosure controls and procedures, and code of business conduct and ethics;

overseeing the Company's internal audit function;

establishing procedures for the receipt, retention and treatment of accounting-related complaints and concerns;

meeting independently with the Company's internal auditing staff, independent registered public accounting firm and management;

reviewing all related party transactions; and

preparing the audit committee report required by SEC rules (which is included on page 9 of this proxy statement).

The members of the Audit Committee are Dr. Vander Sande (Chairman), Mr. Sage and Admiral Baciocco. The Audit Committee met five times during fiscal 2006. The Board has determined that Mr. Sage is an audit committee financial expert as defined in Item 401(h) of Regulation S-K.

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Compensation Committee

The Compensation Committee's responsibilities include:

annually reviewing and approving corporate goals and objectives relevant to CEO compensation;

reviewing and making a recommendation to the Board with respect to the CEO's compensation;

reviewing and approving the compensation of the Company's other executive officers;

overseeing an evaluation of the Company's executive officers;

overseeing and administering the Company's incentive-compensation and equity-based plans;

retaining any compensation consultant to be used to assist in the evaluation of executive officer compensation; and

reviewing and making recommendations to the Board with respect to director compensation.

The members of the Compensation Committee are Mr. Crisp (Chairman), Mr. Drouin, Dr. Vander Sande and Mr. Budhreja. The Compensation Committee met four times during fiscal 2006.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee's responsibilities include:

recommending to the Board the persons to be nominated for election as directors at any meeting of stockholders and the persons to be elected by the Board to fill any vacancies on the Board;

recommending to the Board the persons to be elected to each of the Board's Committees;

developing and recommending to the Board a set of corporate governance guidelines applicable to the Company; and

overseeing the evaluation of the Board.

The members of the Nominating and Corporate Governance Committee are Mr. Drouin (Chairman), Mr. Crisp and Admiral Baciocco. The Nominating Committee met once during fiscal 2006.

Communicating with the Independent Directors

The Board will give appropriate attention to written communications that are submitted by stockholders, and will respond if and as appropriate. The Chief Financial Officer is primarily responsible for monitoring communications from stockholders and for providing copies or summaries to

the other directors as he considers appropriate.

Under procedures approved by a majority of the independent directors, communications are forwarded to all directors if they relate to important substantive matters and include suggestions or comments that the Chief Financial Officer considers to be important for the directors to know. In general, communications relating to corporate governance and long-term corporate strategy are more likely to be forwarded than communications relating to ordinary business affairs, personal grievances and matters as to which the Company tends to receive repetitive or duplicative communications.

Stockholders who wish to send communications on any topic to the Board should address such communications to the Board c/o Chief Financial Officer, American Superconductor Corporation, Two Technology Drive, Westborough, MA 01581.

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Compensation of Directors

Effective April 1, 2006 directors of the Company who are not employees of the Company or any subsidiary (Outside Directors) receive cash compensation as follows: each Outside Director will receive \$20,000 as an annual retainer; the chairmen of the Audit, Compensation, and Nominating and Corporate Governance committees will receive an annual retainer of \$6,000, \$4,000 and \$3,000, respectively; each Outside Director who attends an in person meeting of the Board or a committee of the Board will receive \$1,500 per meeting; each Outside Director who participates in a teleconference meeting of the Board or a committee of the Board will receive \$1,000 per meeting; and each Outside Director who participates in an in person meeting of the Board or a committee of the Board via teleconference will receive \$1,000 per meeting.

In fiscal 2006, Outside Directors received cash compensation as follows pursuant to a director compensation plan implemented as of April 1, 2004: each Outside Director received \$20,000 as an annual retainer; each Outside Director who attended an in person meeting of the Board or a committee of the Board received \$1,200 per meeting; each Outside Director who participated in a teleconference meeting of the Board or a committee of the Board received \$800 per meeting; and each Outside Director who participated in an in person meeting of the Board or a committee of the Board via teleconference received \$800 per meeting.

In addition to the \$20,000 each Outside Director received as an annual retainer, they earned the following amounts for their attendance at Board meetings in fiscal 2006: Admiral Baciocco \$11,200; Mr. Budhraj \$11,200; Mr. Crisp \$11,200; Mr. Drouin \$11,200; Mr. Sage \$10,400; and Dr. Vander Sande \$11,200. In fiscal 2006, members of the Compensation Committee earned the following amounts for their services on such committee: Mr. Crisp \$4,800; Mr. Budhraj \$1,200; Mr. Drouin \$4,400; and Dr. Vander Sande \$4,800. In fiscal 2006, members of the Nominating Committee (recently reconstituted as the Nominating and Corporate Governance Committee) earned the following amounts for their services on such committee: Mr. Drouin \$1,200; Admiral Baciocco \$1,200; and Mr. Crisp \$1,200. In fiscal 2006, members of the Audit Committee earned the following amounts for their services on such committee: Dr. Vander Sande \$5,600; Admiral Baciocco \$4,800; and Mr. Sage \$5,600. In addition, Mr. Crisp was paid \$3,000 for his services as chairman of the Compensation Committee and Dr. Vander Sande was paid \$3,000 for his services as chairman of the Audit Committee.

Pursuant to the Second Amended and Restated 1997 Director Plan (the 1997 Director Plan), Outside Directors are granted options on the following terms: (i) each Outside Director of the Company who is initially elected to the Board after September 5, 1997 is granted an option to purchase 20,000 shares of common stock upon his or her initial election to the Board, and (ii) each Outside Director is granted an option to purchase 10,000 shares of common stock of the Company three business days following each Annual Meeting of the Stockholders of the Company, provided that such Outside Director has served as a director of the Company for at least one year. Each option granted under the 1997 Director Plan has an exercise price equal to the fair market value of the common stock on the date of grant. Options granted under the 1997 Director Plan upon an Outside Director's election to the Board become exercisable in equal annual installments over a two-year period. Notwithstanding such vesting schedule, such options become exercisable in full in the event of an acquisition of the Company. Options granted to continuing Outside Directors following Annual Meetings of Stockholders are immediately exercisable in full. The term of each option granted under the 1997 Director Plan is ten years, provided that, in general, an option may be exercised only while the director continues to serve as a director of the Company or within 60 days thereafter. In accordance with the terms of the 1997 Director Plan, Dr. Vander Sande, Mr. Sage, Mr. Drouin, Mr. Crisp, Mr. Budhraj, and Admiral Baciocco were each granted an option to purchase 10,000 shares of common stock at an exercise price of \$11.59 per share in August 2005.

Code of Business Conduct and Ethics

The Company has adopted a written Code of Business Conduct and Ethics that applies to the Company's directors, officers and employees, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Company has posted a current

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copy of the code on its website, which is located at *www.amsuper.com*. In addition, the Company intends to post on its website all disclosures that are required by law or Nasdaq stock market listing standards concerning any amendments to, or waivers from, any provision of the code.

Audit Committee Report

The Audit Committee has reviewed the Company's audited financial statements for the fiscal year ended March 31, 2006 and has discussed these financial statements, management's assessment of the effectiveness of internal control over financial reporting, and the Company's independent registered public accounting firm's opinion as to whether the Company maintained, in all material respects, effective internal control over financial reporting with the Company's management and the Company's independent registered public accounting firm.

Management is responsible for the Company's internal controls and the financial reporting process, and for the preparation of consolidated financial statements in accordance with generally accepted accounting principles (GAAP). The Company's independent registered public accounting firm is responsible for performing an independent audit of the Company's financial statements in accordance with GAAP and issuing a report on those financial statements, auditing management's assessment of the effectiveness of internal control over financial reporting, and expressing an opinion as to whether the Company maintained, in all material respects, effective internal control over financial reporting. As appropriate, the Audit Committee reviews and evaluates, and discusses with the Company's management, internal accounting, financial and auditing personnel, and the independent registered public accounting firm, the following:

the plan for, and the independent registered public accounting firm's report on, each audit of the Company's financial statements;

the Company's financial disclosure documents, including all financial statements and reports filed with the SEC or sent to shareholders;

changes in the Company's accounting practices, principles, controls or methodologies;

significant developments or changes in accounting rules applicable to the Company; and

the adequacy of the Company's internal control over financial reporting and accounting, financial and auditing personnel.

Management represented to the Audit Committee that the Company's financial statements had been prepared in accordance with GAAP.

The Audit Committee also discussed with PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, the Company's audited financial statements and the matters required to be discussed by applicable accounting standards and Audit Committee rules, including the matters required by Statement on Auditing Standards Nos. 61 and 90, as amended (*Communication with Audit Committees*).

The Company's independent registered public accounting firm also provided the Audit Committee with the written disclosures and the letter required by Independence Standards Board Standard No. 1 (*Independence Discussions with Audit Committees*). Independence Standards Board Standard No. 1 requires auditors annually to disclose in writing all relationships that in the auditor's professional opinion may reasonably be thought to bear on independence, confirm their perceived independence and engage in a discussion of independence. In addition, the Audit Committee discussed with the independent registered public accounting firm its independence from the Company. The Audit Committee also considered whether the independent registered public accounting firm's provision of certain non-audit services to the Company is compatible with maintaining such firm's independence.

Based on its discussions with management and the registered public accounting firm, and its review of the representations and information provided by management and the independent registered public accounting firm, the Audit Committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2006.

By the Audit Committee of the Board.

John B. Vander Sande, *Chairman*

Albert J. Baciocco, Jr.

Andrew G.C. Sage, II

Table of Contents**EXECUTIVE COMPENSATION****Summary Compensation**

The following table sets forth certain information concerning the compensation for each of the last three fiscal years of (i) the Company's Chief Executive Officer and (ii) the Company's four other most highly compensated executive officers for fiscal 2006 who were serving as executive officers on March 31, 2006 (the "Senior Executives").

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Annual Compensation (1)		Long-Term Compensation Awards		
		Salary	Bonus	Restricted Stock Awards (\$)(2)	Number of Shares Underlying Options (#)	All Other Compensation
Gregory J. Yurek (3) <i>Chairman of the Board and Chief Executive Officer</i>	2006	\$ 455,000	\$ 162,545	\$ 222,000	185,000	\$ 4,420
	2005	405,000	312,012	383,700	30,000	4,055(4)
	2004	385,866	172,868		250,000	3,660(4)
Terry M. Winter (5) <i>Executive Vice President, Operations</i>	2006	230,000	81,144	136,800	50,000	
	2005	106,923(6)	11,667	125,400	90,000	
	2004					
Alexis P. Malozemoff (7) <i>Executive Vice President and Chief Technical Officer</i>	2006	209,823	41,360	55,000	10,000	
	2005	209,823	62,099	125,370		
	2004	209,823	36,761		50,000	