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American Superconductor

NASDAQ: AMSC

CORPORATE INFO

AMSC is a leading energy technologies company. The company develops and sells a wide range of products and solutions based on high temperature superconductor (HTS) wires and power electronic systems that dramatically improve the efficiency and quality of electricity during its generation, transmission, distribution and use.

www.amsuper.com

Gregory J. Yurek, Ph.D.
Founder,
Chairman of the Board,
President & CEO

Gregory J. Yurek, Ph.D., Founder, Chairman of the Board, President & CEO, was interviewed by Wall Street Reporter on January 26, 2007.

TRANSCRIPT OF INTERVIEW

WSR: **Tell us about American Superconductor and the overall market you are targeting.**

AMSC: American Superconductor is an energy technologies company. We have two core products - one is our high temperature superconductor wires, or HTS wires for short. These wires carry large quantities of electricity; more than 150 times the electricity of same-size copper wires, and they do it with no electrical resistance. That means very high efficiency in moving power through power cables under the streets of cities, as well as in motors, generators and many other applications.

Our other core technology is power electronic converters, which we use to solve reliability problems in electric power grids. One of the newer markets we are addressing with this product is the wind industry. Wind-generated electricity is the fastest-growing electricity segment, and we are participating with our power electronic converters to enable wind farms to hook up to the grid. Wind farm developers are able to utilize our product to smooth out voltage fluctuations and then sell their electricity to utilities. We also recently acquired Windtec, which will help boost our growth in the wind energy area.

WSR: **Expand a bit more about your product offerings, their applications and market potential.**

AMSC: Starting with the HTS wire, there are 10 projects around the world that utilize HTS wire to make power cables, which you would find under streets in urban and metropolitan areas. They are used to move power from utility generation stations to customers. The problem with our power grid, particularly in urban and metropolitan areas, is that it's congested. It's the source of blackouts we have been experiencing frequently over the last decade.

There has been very little investment in fixing up the grid over the last 30 years. It's been a negative investment. That has turned around recently, and we are starting to see investments come back into the U.S. power grid. Our products are going to be helping solve those grid congestion problems as we come off initial prototypes that have been running both in the U.S. and around the world.

Along with business partners such as Siemens, we are developing fault current limiters, or surge protectors for power grids. These products protect expensive equipment in the grid from being damaged by spikes of current often running

through the grid. This is a product that doesn't exist today and cannot exist without superconductors.

One more example I can give would be ship propulsion motors, which drive the propellers in today's cruise ships and future navy ships. These are very large machines, with 300 tons being a typical size using copper on the rotor. By replacing that copper with our HTS wire because of their very high capacity for carrying electricity and high efficiency, that 300-ton motor gets shrunk down to a 75-ton machine. That's a huge savings in weight and space on these ships.

In other words, there are many different applications for this revolutionary wire technology. The market potential is huge, in the billions of dollars.

We entered the wind industry 3-1/2 years ago, selling our products allowing wind farms to connect to the grid. We help meet grid interconnection standards set in many countries around the world, and that process of setting standards continues. With that product, we are serving over 20 wind farms in North America, Australia, New Zealand, and the United Kingdom.

In 2005, the total installed base of wind-generated electricity was 59,000 megawatts worldwide, a considerable amount; it is expected to grow to more than 135,000 megawatts by 2010. We are participating additionally in that market through an acquisition we closed in early January of a company called Windtec out of Austria. Windtec licenses wind turbine designs to companies in countries such as China, Korea, and Czech Republic, as well as in North America that want to get into the wind generator manufacturing business. We sell them a design, we get a royalty for each wind turbine they put up, and we also sell them the electrical components that go into wind turbine. That's a fast-growing industry we're participating in, and it is contributing substantially to our growth.

WSR: **Discuss some of the recent contracts Windtec has won.**

AMSC: When we closed Windtec's acquisition on January 5, 2007, they brought with them USD$35 million worth of orders, USD$20 million of which will be recognized in our fiscal year starting April 1. Since that time, we've announced two (2) new orders, one of which is from Doosan Heavy Industries and Construction Company in South Korea. Doosan is paying us to develop a brand new wind turbine design with three megawatts of power, and that's already underway.

Earlier this week, we announced an order from a second large customer in China called ZELRI for short, and it's going into the wind generation business. They began as an engineering construction firm with broad capabilities, but without a design for a wind turbine. They bought the design license from us for a 1.65 megawatt wind turbine. They're going to be paying us future royalties on wind turbines as well as buying the electrical systems. In that particular case, it's a USD$2 million upfront license fee. For the first tranche of wind turbines they expect to put up, we're looking at over USD$30 million in additional revenue from royalties and selling components. These are great deals that add to the backlog Windtec came to our company with. And we're not done; we're going to see more orders, both from the Windtec side, as well as our traditional wind business this quarter and next.

WSR: **Update us on your progress on high temperature superconductor wire.**

AMSC: In February 2005, we raised money to scale up the manufacturing of a second-generation high temperature superconductor wire that we call 344 superconductors. The main feature of these 344 superconductors is a five times lower manufacturing cost compared with our first-generation wires, so it's quite substantial. These wires are also showing the capability of carrying more electrical current than first-generation wires. These wires are going to be 200 times more powerful than copper wires. Last summer, we announced our pending installation of some of the full-scale manufacturing equipment, and we are presently 70% installed.

As they say, "the proof is in the pudding," and we are seeing the proof. We recently announced that we are getting commercial-grade performance and record-level production rates for 344 superconductors. You need commercial-grade performance, but you also must be able to produce at rates that allow you to meet cost targets. We believe this is a wire we're going to make 33% gross margins on, and we have a clear pathway to get there. We are on track to meet the objective we set in February 2005, which was to be in production with all full-scale manufacturing equipment by December 2007. We're going to do that.

WSR: Identify some of the major trends affecting your core businesses.

AMSC: One is in the wind industry. Three or four years ago, wind as an industry was just getting started; many people did not think it would go anywhere because it depended on government subsidies and so forth, more in the dream category. By the end of 2005, there were already 59,000 megawatts of installed base worldwide. There is no slowdown on this; all forecasts from industry experts and associations see this continuing at a rapid growth rate for the next five to fifteen years, which I would call a mega-trend. Fortunately, through both our historic business and our acquisition, we're right in the heart of it.

In terms of the superconductors, everything has to go to higher electrical efficiency. We are talking about energy independence for America. Higher efficiency superconductor wires, I believe, will be at the heart of achieving higher efficiency and greater energy independence going forward. 30% of the electricity generated in the United States is used by large industrial motors. Motors made with our superconductor wires would save a lot of energy and would reduce greenhouse gas emissions. As we said, we're an energy technologies company with a broad array of opportunities. I believe that high efficiency and wind energy are megatrends and are the growth areas we are participating in right now.

WSR: Which milestones do you expect to achieve in 2007?

AMSC: Our 2008 fiscal year starts ends March 31, 2008. At this time, we have no specific guidelines for our revenue for that fiscal year. We expect fiscal 2008 to be a growth year for the topline, and we're very excited about that. We also expect a substantial improvement on the bottom line, year-over-year. This is because we are generating profits in our wind energy business as well as our power electronics business for utilities. As a result of that, we are reducing our net use of cash year-over-year.

We are now enjoying some very nice growth and are looking forward to that over the next 12 to 15 months. We are also expecting to continue our expansion of sales and operations in China. China is one of our biggest markets right now, particularly in the wind industry, and we don't see that slowing down. We see that continuing, and we expect to expand into other fast-growing economies.

We are going to see the first superconductor products operating in the Kentucky power grid by this summer. These are high-temperature superconductor rotating machines called SuperVAR synchronous condensers, which should be shipped later this quarter and be on the grid by summertime. By the end of August, we expect to see the world's first superconductor power transmission cable operating in the grid, which will be on Long Island. This is a project we are managing, and our high-temperature superconductor wires are used in this superconductor power cable.

There are a lot of things happening both on the financial front and from products coming through the pipeline, such as these power cables and SuperVAR machines, as well as the expansion of sales in the wind sector.

WSR: Finally, why would a potential investor want to get involved in American Superconductor?

AMSC: In a way, we have turned a corner, in the sense that our growth in revenue in the past has been primarily driven by U.S. government contracts. It has helped pay the bills in terms of developing our products and entering new markets.

In this coming year, investors should be looking at growth on the top line being driven primarily by commercial sales. That's new for American Superconductor, and we are very excited about it. We are going to see the cash burn go down as we enjoy profits coming from those commercial sales, which is driving us toward profitability on a consolidated basis in the relatively near-term. The major technical milestones I have already mentioned, some occurring very soon this quarter as well as in the new fiscal year, are very important validation points that investors can and should be looking at. In other words, we have turned the corner, we are heading in the right direction, and it's going to be an exciting time ahead.

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