FUELCELL ENERGY INC
Form 10-Q
March 07, 2019

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 January 31, 2019

OR

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: 1-14204

FUELCELL ENERGY, INC.

(Exact name of registrant as specified in its charter)

Delaware	06-0853042
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3 Great Pasture Road	
Danbury, Connecticut	06810
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (203) 825-6000

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

Number of shares of common stock, par value $0.0001 per share, outstanding as of March 4, 2019: 129,497,420

FUELCELL ENERGY, INC.

FORM 10-Q

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FUELCELL ENERGY, INC.

Consolidated Balance Sheets

(Unaudited)

(Amounts in thousands, except share and per share amounts)

	January 31, 2019	October 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents, unrestricted	$27,750	$39,291
Restricted cash and cash equivalents - short-term	5,601	5,806
Accounts receivable, net	8,321	9,280
Unbilled receivables	12,387	13,759
Inventories	54,802	53,575
Other current assets	8,273	8,592
Total current assets	117,134	130,303
Restricted cash and cash equivalents - long-term	34,863	35,142
Project assets	109,819	99,600
Property, plant and equipment, net	47,405	48,204
Goodwill	4,075	4,075
Intangible asset	9,592	9,592
Other assets	23,067	13,505
Total assets	$345,955	$340,421
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$38,869	$17,596
Accounts payable	19,905	22,594
Accrued liabilities	11,051	7,632
Deferred revenue	17,213	11,347
Preferred stock obligation of subsidiary	951	952
Total current liabilities	87,989	60,121
Long-term deferred revenue	22,769	16,793
Long-term preferred stock obligation of subsidiary	15,282	14,965
Long-term debt and other liabilities	66,883	71,619
Total liabilities	192,923	163,498
Redeemable Series B preferred stock (liquidation preference of $64,020 as of January 31, 2019 and October 31, 2018)	59,857	59,857
Redeemable Series C preferred stock (liquidation preference of $7,470 and $8,992 as of January 31, 2019 and October 31, 2018, respectively)	7,470	7,480
Redeemable Series D preferred stock (liquidation preference of $25,426 and $30,680 as of January 31, 2019 and October 31, 2018, respectively)	26,851	27,392
Total equity:		

Stockholders’ equity:		
Common stock ($0.0001 par value); 225,000,000 shares authorized as of January 31, 2019 and October 31, 2018; 108,415,259 and 95,672,237 shares issued and outstanding as of January 31, 2019 and October 31, 2018, respectively	11	10
Additional paid-in capital	1,074,308	1,073,454
Accumulated deficit	(1,015,069)	(990,867)
Accumulated other comprehensive loss	(396)	(403)
Treasury stock, Common, at cost (156,501 shares as of January 31, 2019 and October 31, 2018)	(363)	(363)
Deferred compensation	363	363
Total stockholders’ equity	58,854	82,194
Total liabilities and stockholders' equity	$345,955	$340,421

See accompanying notes to consolidated financial statements.

FUELCELL ENERGY, INC.

Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

(Amounts in thousands, except share and per share amounts)

	Three Months Ended January 31, 2019	2018
Revenues:		
Product	$—	$29,530
Service and license	11,772	4,104
Generation	1,479	1,892
Advanced Technologies	4,532	3,087
Total revenues	17,783	38,613
Costs of revenues:		
Product	3,422	26,137
Service and license	12,319	3,406
Generation	1,636	1,609
Advanced Technologies	2,611	2,826
Total costs of revenues	19,988	33,978
Gross (loss) profit	(2,205)	4,635
Operating expenses:		
Administrative and selling expenses	6,759	6,142
Research and development expenses	6,280	4,046
Total costs and expenses	13,039	10,188
Loss from operations	(15,244)	(5,553)
Interest expense	(2,464)	(2,141)
Other income, net	160	476
Loss before benefit for income taxes	(17,548)	(7,218)
Benefit for income taxes	—	3,035
Net loss	(17,548)	(4,183)
Series B preferred stock dividends	(800)	(800)
Series C preferred stock deemed dividends and redemption value adjustment	(9,005)	(3,463)
Series D Preferred stock deemed dividends and redemption accretion	(5,685)	-
Net loss attributable to common stockholders	$(33,038)	$(8,446)
Loss per share basic and diluted:		
Net loss per share attributable to common stockholders	$(0.33)	$(0.12)
Basic and diluted weighted average shares outstanding	99,860,421	72,024,811

	Three Months Ended January 31, 2019	2018
Net loss	$(17,548)	$(4,183)
Other comprehensive loss:		
Foreign currency translation adjustments	7	33

Total comprehensive loss	$(17,541)	$(4,150)

See accompanying notes to consolidated financial statements.

FUELCELL ENERGY, INC.

Consolidated Statements of Cash Flows

(Unaudited)

(Amounts in thousands)

	Three Months Ended January 31, 2019	2018
Cash flows from operating activities:		
Net loss	$(17,548)	$(4,183)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	982	617
Loss from change in fair value of embedded derivatives	22	55
Depreciation	2,199	2,128
Non-cash interest expense on preferred stock and debt obligations	1,574	1,491
Unrealized foreign exchange (gains) losses	(12)	534
Deferred income taxes	—	(3,035)
Other non-cash transactions, net	187	—
Decrease (increase) in operating assets:		
Accounts receivable	1,329	26,280
Unbilled receivables	(7,828)	344
Inventories	(1,227)	14,784
Other assets	139	(1,108)
Increase (decrease) in operating liabilities:		
Accounts payable	(152)	(2,898)
Accrued liabilities	2,532	3,074
Deferred revenue	5,845	1,914
Net cash (used in) provided by operating activities	(11,958)	39,997
Cash flows from investing activities:		
Capital expenditures	(1,591)	(2,816)
Project asset expenditures	(12,633)	(4,577)
Net cash used in investing activities	(14,224)	(7,393)
Cash flows from financing activities:		
Repayment of debt	(1,610)	(6,253)
Proceeds from debt	17,250	—
Payment of deferred financing costs	(485)	—
Payment of preferred dividends and return of capital	(1,036)	(1,048)
Common stock issued for stock plans and related expenses	31	—
Proceeds from sale of common stock and warrant exercises, net	—	2,647
Net cash provided by (used in) financing activities	14,150	(4,654)
Effects on cash from changes in foreign currency rates	7	33
Net (decrease) increase in cash, cash equivalents and restricted cash	(12,025)	27,983
Cash, cash equivalents and restricted cash-beginning of period	80,239	87,448
Cash, cash equivalents and restricted cash-end of period	$68,214	$115,431
Supplemental cash flow disclosures:		
Cash interest paid	$827	$651

Noncash financing and investing activity:		
Series C preferred share conversions	1,974	7,569
Series D preferred share conversions	4,334	—
Accrued purchase of fixed assets, cash paid in subsequent period	107	1,231
Accrued purchase of project assets, cash paid in subsequent period	2,050	1,750

See accompanying notes to consolidated financial statements.

FUELCELL ENERGY, INC.

Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts in thousands, except share and per share amounts)

Note 1. Nature of Business and Basis of Presentation

FuelCell Energy, Inc., together with its subsidiaries (the “Company”, “FuelCell Energy”, “we”, “us”, or “our”) is a leading integrated fuel cell company with a growing global presence. We design, manufacture, install, operate and service ultra-clean, efficient and reliable stationary fuel cell power plants. Our SureSource power plants generate electricity and usable high quality heat for commercial, industrial, government and utility customers. We have commercialized our stationary carbonate fuel cells and are also pursuing the complementary development of planar solid oxide fuel cells and other fuel cell technologies. Our operations are funded primarily through sales of equity instruments to strategic investors or in public markets, corporate and project level debt financing and local or state government loans or grants. In order to produce positive cash flow from operations, we need to be successful at increasing annual order volume and production and in our cost reduction efforts.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial information. Accordingly, they do not contain all of the information and footnotes required by accounting principles generally accepted in the United States of America (“GAAP”) for complete financial statements. In the opinion of management, all normal and recurring adjustments necessary to fairly present the Company’s financial position and results of operations as of and for the three months ended January 31, 2019 and 2018 have been included. All intercompany accounts and transactions have been eliminated.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. The balance sheet as of October 31, 2018 has been derived from the audited financial statements at that date, but it does not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the Company’s financial statements and notes thereto for the fiscal year ended October 31, 2018, which are contained in the Company’s Annual Report on Form 10-K previously filed with the SEC. The results of operations for the interim periods presented are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year.

Certain reclassifications have been made to the prior year amounts to conform to the current year presentation. The Company has adopted Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" and has applied a modified retrospective transition method. As a result of the adoption of this ASU, Unbilled receivables has been reclassified as a separate line item from Accounts receivable, net on the Consolidated Balance Sheets and Unbilled receivables has been classified as a separate item from Accounts receivable, net in the Consolidated Statement of Cash Flows for the prior year period.

Liquidity

The Company’s future liquidity will be dependent on obtaining a combination of increased order and contract volumes, increased cash flows from the Company’s generation and service portfolios and cost reductions necessary to achieve profitable operations. To grow its generation portfolio, the Company will invest in developing and building turn-key fuel cell projects which will be owned by the Company and classified as project assets on the balance sheet. This strategy requires liquidity and is expected to continue to have increasing liquidity requirements as project sizes increase. The Company may commence building project assets upon the award of a project or execution of a multi-year power purchase agreement (“PPA”) with an end-user that has a strong credit profile. Project development and construction cycles, which span the time between securing a PPA and commercial operation of the plant, vary substantially and can take years. As a result of these project cycles and strategic decisions to finance the construction of certain projects, the Company may need to make significant up-front investments of resources in advance of the receipt of any cash from the sale or long-term financing of such projects. These up-front investments may include using the Company’s working capital, availability under the Company’s construction financing facilities or other financing arrangements. Delays in construction progress or in completing financing or the sale of the Company’s projects may impact the Company’s liquidity.

FUELCELL ENERGY, INC.

Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts in thousands, except share and per share amounts)

The Company expects to maintain appropriate cash and debt levels based upon its expected cash requirements for operations, capital expenditures, construction of project assets and principal, interest and dividend payments. In the future, the Company may also engage in additional debt or equity financings, including project specific debt financings under existing and new facilities. The Company believes that, when necessary, it will have adequate access to the capital markets, although the timing, size and terms of any financing will depend on multiple factors, including market conditions, future order flow and the need to adjust production capacity. There can be no assurance that the Company will be able to raise additional capital at the times, in the amounts, or on the terms required for the implementation of its business plan and strategy. In addition, the Company's capital-intensive business model of building generation assets increases the risk that the Company will be unable to successfully implement its plans, particularly if the Company does not raise additional capital in the amounts required. If the Company is unable to raise additional capital at the times or in the amounts required, or on terms favorable to the Company, the Company's growth potential may be adversely affected and the Company may have to modify its plans which could include restructuring, workforce reductions, change in production volumes and asset or intellectual property sales. If these strategies are not successful, the Company may be required to delay, reduce and/or cease its operations.

The Company believes that its current working capital and cash anticipated to be generated from future operations, as well as recent debt incurred and cash received under its project financing facilities and remaining availability under these project financing facilities (refer to Note 14, "Debt and Financing Obligation" for more information) and proceeds from future equity offerings, will provide sufficient liquidity to fund operations for at least the next twelve months. The Company has an At Market Issuance Sales Agreement in place (refer to Note 10, "Stockholders' Equity" for more information) which could supplement proceeds through equity offerings dependent upon market conditions.

Use of Estimates

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Estimates are used in accounting for, among other things, revenue recognition, contract loss accruals, excess, slow-moving and obsolete inventories, product warranty accruals, loss accruals on service agreements, share-based compensation expense, allowance for doubtful accounts, depreciation and amortization, impairment of goodwill and in-process research and development intangible assets, impairment of long-lived assets (including project assets), income taxes and contingencies. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Due to the inherent uncertainty involved in making estimates, actual results in future periods may differ from those estimates.

Note 2. Recent Accounting Pronouncements

Recently Adopted Accounting Guidance

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”. The objective of this ASU is to remove inconsistent practices with regard to revenue recognition in and between US GAAP and International Financial Reporting Standards. ASU 2014-09 intends to improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The adoption of this ASU resulted in a cumulative effect adjustment increasing Accumulated deficit by $6.7 million on November 1, 2018.

Recent Accounting Guidance Not Yet Effective

In February 2016, the FASB issued ASU 2016-02, “Leases” which, for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. This ASU is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (which, for the Company, will be the first quarter of fiscal year 2020). Early adoption is permitted. The Company has both operating and capital leases (refer to Note 16. “Commitments and Contingencies”) as well as sale-leasebacks accounted for under the finance method and may have other arrangements that contain embedded leases as characterized in this ASU. The Company expects that adoption of this ASU will result in the recognition of right-of-use assets and lease liabilities not currently recorded in its consolidated financial statements under existing accounting guidance. However, the Company is still evaluating all of its contractual arrangements and the impact that adoption of ASU 2016-02 will have on the Company’s consolidated financial statements.

FUELCELL ENERGY, INC.

Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts in thousands, except share and per share amounts)

In January 2017, the FASB issued ASU 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” which provides for a one-step quantitative impairment test, whereby a goodwill impairment loss will be measured as the excess of a reporting unit’s carrying amount over its fair value (not to exceed the total goodwill allocated to that reporting unit). It eliminates Step 2 of the current two-step goodwill impairment test, under which a goodwill impairment loss is measured by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. The standard is effective, on a prospective basis for interim and annual periods beginning after December 15, 2019, with early adoption permitted. The Company adopted this ASU effective November 1, 2018. The adoption of this ASU did not have an impact on the Company’s consolidated financial statements.

Note 3. Revenue Recognition

Under Accounting Standards Codification (ASC) Topic 606: Revenue from Contracts with Customer (“Topic 606”), the amount of revenue recognized for any goods or services reflects the consideration that the Company expects to be entitled to receive in exchange for these goods or services. To achieve this core principle, the Company applies the following five step approach: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to performance obligations in the contract; and (5) recognize revenue when or as a performance obligation is satisfied.

A contract is accounted for when there has been approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Performance obligations under a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct and are distinct in the context of the contract. In certain instances, the Company has concluded distinct goods or services should be accounted for as a single performance obligation that is a series of distinct goods or services that have the same pattern of transfer to the customer. To the extent a contract includes multiple promised goods or services, the Company must apply judgment to determine whether the customer can benefit from the goods or services either on their own or together with other resources that are readily available to the customer (the goods or services are distinct) and if the promise to transfer the goods or services to the customer is separately identifiable from other promises in the contract (the goods or services are distinct in the context of the contract). If these criteria are not met, the promised services are accounted for as a single performance obligation. The transaction price is determined based on the consideration that the Company will be entitled to in exchange for transferring goods or services to the customer. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price, generally utilizing the expected value method. Determining the transaction price requires judgment. If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis.

Standalone selling price is determined by the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price by taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations. Performance obligations are satisfied either over time or at a point in time as discussed in further detail below. In addition, the Company's contracts with customers generally do not include significant financing components or non-cash consideration.

Revenue streams are classified as follows:

Product. Includes the sale of completed project assets, sale and installation of fuel cell power plants including site engineering and construction services, and the sale of modules, balance of plant (“BOP”) components and spare parts to customers.

Service. Includes performance under long-term service agreements for power plants owned by third parties.

License and royalty. Includes license fees and royalty income from manufacturing and technology transfer agreements.

Generation. Includes the sale of electricity under PPAs and utility tariffs from project assets retained by the Company. This also includes revenue received from the sale of other value streams from these assets including the sale of heat, steam and renewable energy credits.

Advanced Technologies. Includes revenue from customer-sponsored and government-sponsored Advanced Technologies projects.

FUELCELL ENERGY, INC.

Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts in thousands, except share and per share amounts)

Revenue Recognition Accounting Policy Summary

The Company accounts for revenue in accordance with Topic 606. Under Topic 606, a performance obligation is a promise in a contract with a customer to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. When there are multiple performance obligations within a contract, the Company allocates the transaction price to each performance obligation based on its relative stand-alone selling price.

The Company considers the contractual consideration payable by the customer and assesses variable consideration that may affect the total transaction price when determining the transaction price of each contract. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price, generally utilizing the expected value method. These estimates are based on historical experience, anticipated performance and the Company's best judgment at the time.

See below for discussion of revenue recognition under Topic 606 by disaggregated revenue stream, including a comparison to revenue recognition treatment under ASC 605, Revenue Recognition ("ASC 605").

Completed project assets

Contracts for the sale of completed project assets includes the sale of the project asset, the assignment of the service agreement, and the assignment of the PPA. The relative stand-alone selling price is estimated and is used as the basis for allocation of the contract consideration. Revenue is recognized upon the satisfaction of the performance obligations, which includes the transfer of control of the project asset to the customer, which is when the contract is signed and the PPA is assigned to the customer. See below for further discussion regarding revenue recognition for service agreements. The revenue recognition for completed project assets under Topic 606 is consistent with treatment under ASC 605.

Contractual payments related to the sale of the project asset and assignment of the PPA are generally received up-front. Payment terms for service agreements are generally ratable over the term of the agreement.

Service agreements

Service agreements represent a single performance obligation whereby the Company performs all required maintenance and monitoring functions, including replacement of modules, to ensure the power plant(s) under the service agreement generate a minimum power output. To the extent the power plant(s) under service agreements do not achieve the minimum power output, certain service agreements include a performance guarantee penalty. Performance guarantee penalties represent variable consideration which is estimated for each service agreement based on past experience using the expected value method. The net consideration for each service agreement is recognized using costs incurred to date relative to total estimated costs at completion to measure progress. Under ASC 605, revenue for service agreements was generally recorded ratably over the term of the service agreement, as the performance of routine monitoring and maintenance under the service agreements was expected to be incurred on a straight-line basis. If there was an estimated module exchange(s) at some point during the term, the costs of performance were not expected to be incurred on a straight-line basis, and therefore a portion of the initial contract value relating to the module exchange(s) was deferred and recognized upon such module replacement event(s). Furthermore, under ASC 605, performance guarantee accruals were recorded based on actual performance and the related expense was recorded to service and license cost of revenues. Under the provisions of the Company’s service agreements, the Company provides services to maintain, monitor, and repair customer power plants to meet minimum operating levels. Under the terms of the service agreements, the particular power plant must meet a minimum operating output during defined periods of the term. If minimum output falls below the contract requirement, the Company may be subject to performance penalties and/or may be required to repair or replace the customer’s fuel cell module(s). Prior to the implementation of Topic 606, an estimate for a performance guarantee was not recorded until a performance issue occurred at a particular power plant. At that point, the actual power plant’s output was compared against the minimum output guarantee and an accrual was recorded. The review of power plant performance was updated for each reporting period to incorporate the most recent performance of the power plant and minimum output guarantee payments made to customers, if applicable. Under Topic 606, performance guarantees are considered variable consideration and as such, an estimate of future performance obligations is determined for each service agreement based on past payment history and is included as an offset to the service agreement consideration.

FUELCELL ENERGY, INC.

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(Unaudited)

(Tabular amounts in thousands, except share and per share amounts)

The Company reviews its cost estimates on service contracts on a quarterly basis. The Company records changes in contract estimates on cumulative catch-up basis.

Loss accruals for long-term service agreements are recognized to the extent that the estimated remaining costs to satisfy the performance obligation exceed the estimated remaining unrecognized net consideration. Estimated losses are recognized in the period in which losses are identified.

The Company records any amounts that are billed to customers in excess of revenue recognized as deferred revenue and revenue recognized in excess of amounts billed to customers as unbilled receivables. Payment terms for service agreements are generally ratable over the term of the agreement.

Advanced Technologies contracts

Advanced Technologies contracts include the promise to perform research and development services and as such this represents one performance obligation. Revenue from most government sponsored Advanced Technologies projects is recognized as direct costs are incurred plus allowable overhead less cost share requirements, if any. Revenue is only recognized to the extent the contracts are funded. Revenue from fixed price Advanced Technologies projects is recognized using the cost to cost input method. There was no impact of adoption of Topic 606 on revenue recognition for Advanced Technologies contracts.

The Company records any amounts that are billed to customers, in excess of revenue recognized as deferred revenue and revenue recognized in excess of amounts billed to customers as unbilled receivables. Payments are based on costs incurred for government sponsored Advanced Technologies projects and upon completion of milestones for all other projects.

License agreement

The Company entered into manufacturing and technology transfer agreements (the “license agreements”) with POSCO Energy Co., Ltd. (“POSCO Energy”) in 2007, 2009 and 2012. Revenue from the license fees received from POSCO Energy were previously recognized over the term of the associated agreements. In connection with the adoption of Topic 606, several performance obligations were identified including previously satisfied performance obligations for the transfer of licensed intellectual property, two performance obligations for specified upgrades of the previously licensed intellectual property, a performance obligation to deliver unspecified upgrades to the previously licensed intellectual property on a when and if available basis, and a performance obligation to provide technical support for previously delivered intellectual property. The performance obligations related to the specified upgrades will be satisfied and related consideration recognized as revenue upon the delivery of the specified upgrades. The performance obligations for unspecified upgrades and technical support are being recognized on a straight-line basis over the license term on the basis this represents the method that best depicts the progress towards completion of the related performance obligations.

All fixed consideration for the license agreement was previously collected.

Generation revenue

For project assets where customers purchase electricity from the Company under PPAs, the Company has determined that these agreements should be accounted for as operating leases pursuant to ASC 840, Leases. Revenue is recognized based on the amount of electricity delivered at rates specified under the contracts, assuming all other revenue recognition criteria are met.

Payments for electricity are made after the electricity has delivered.

FUELCELL ENERGY, INC.

Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts in thousands, except share and per share amounts)

The cumulative effect of the changes made to the Company's Consolidated Balance Sheets as of November 1, 2018 as a result of the adoption of Topic 606 was as follows:

	October 31, 2018	Adjustments due to Topic 606	Balance at November 1, 2018
ASSETS			
Unbilled receivables	$13,759	$ 471	$14,230
Other assets	13,505	(132)	13,373
LIABILITIES			
Accrued liabilities	$7,632	$ 995	$8,627
Deferred revenue, current portion	11,347	(240)	11,107
Long-term deferred revenue	16,793	6,238	23,031
EQUITY			
Accumulated deficit	$(990,867)	$ (6,654)	$(997,521)

The increase in long-term deferred revenue primarily pertains to license arrangement consideration previously recognized as revenue under ASC 605 that will be recognized when the specified upgrade performance obligations are satisfied.

The following tables summarize the impacts of Topic 606 on the Company's consolidated financial statements.

	January 31, 2019		
	As reported	Adjustments	Balances without adoption of Topic 606

ASSETS			
Unbilled receivables	$12,387	$ (226)	$12,161
Other assets	23,067	(942)	22,125
LIABILITIES			
Accrued liabilities	$11,051	$ (2,310)	$8,741
Deferred revenue	17,213	(495)	16,718
Long-term deferred revenue	22,769	(6,472)	16,297
EQUITY			
Accumulated deficit	$(1,015,069)	$ 8,109	$(1,006,960)

FUELCELL ENERGY, INC.

Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts in thousands, except share and per share amounts)

	For the Three Months Ended January 31, 2019		
	As reported	Adjustments	Balances without adoption of Topic 606
Total revenues	$17,783	$ 1,548	$19,331
Total cost of revenues	19,988	275	20,263
Gross loss	(2,205)	1,273	(932)
Administrative and selling expenses	6,759	—	6,759
Research and development expenses	6,280	—	6,280
Loss from operations	(15,244)	1,273	(13,971)
Interest expense	(2,464)	—	(2,464)
Other income, net	160	—	160
Loss before provision for income taxes	—	—	—
Provision for income taxes	—	—	—
Net loss	$(17,548)	$ 1,273	$(16,275)

For the three-month period ended January 31, 2019, the only adjustment to comprehensive loss when comparing the balances with Topic 606 and the balances without Topic 606 included the adjustment to net loss.

For the three-month period ended January 31, 2019, the impact of adoption of Topic 606 on the Consolidated Statement of Cash Flows included an adjustment to net loss of $1.3 million and adjustments to changes in operating assets and liabilities consistent with the impact of adoption of Topic 606 on the January 31, 2019 Consolidated Balance Sheet as reflected above.

Contract Balances

Contract assets as of January 31, 2019 and October 31, 2018 were $29.8 million and $23.2 million, respectively. The contract assets relate to the Company's rights to consideration for work completed but not billed. These amounts are included on a separate line item as Unbilled receivables and within Other assets on the accompanying consolidated balance sheets. The net change in contract assets represents amounts recorded as revenue offset by customer billings.

A total of $4.1 million was transferred to accounts receivable from contract assets recognized at the beginning of the period.

Contract liabilities as of January 31, 2019 and October 31, 2018 were $40.0 million and $28.1 million, respectively. The contract liabilities relate to the advance billings to customers for services that will be recognized over time and in some instances for deferred revenue relating to license performance obligations that will be recognized at a future point in time. These amounts are included within Deferred revenue and Long-term deferred revenue on the accompanying consolidated balance sheets. The net change in contract liabilities represents customer billings offset by revenue recorded.

Remaining Performance Obligations

Remaining performance obligations are the aggregate amount of total contract transaction price that is unsatisfied or partially unsatisfied. As of January 31, 2019, the Company's total remaining performance obligations for service agreements, license agreements and Advanced Technologies contracts were $328.2 million. License revenue recognized over time will be over the term of the license agreement. License revenue recognized at a point in time will be recognized when the first specified upgrade that has been developed is delivered and the second specified upgrade when it is developed and delivered. Service revenue in periods where there are no module replacements is expected to be relatively consistent from period to period whereas module replacements will result in an increase in revenue.

FUELCELL ENERGY, INC.

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(Unaudited)

(Tabular amounts in thousands, except share and per share amounts)

Note 4. Accounts Receivable, Net and Unbilled Receivables

Accounts receivable, net and Unbilled receivables as of January 31, 2019 and October 31, 2018 consisted of the following:

	January 31, 2019	October 31, 2018
Commercial Customers:		
Amount billed	$7,809	$7,415
Unbilled receivables (1)	11,194	10,632
	19,003	18,047
Advanced Technologies (including U.S. government(2)):		
Amount billed	512	1,865
Unbilled receivables	1,193	3,127
	1,705	4,992
Accounts receivable, net and unbilled receivables	$20,708	$23,039

(1) Additional long-term unbilled receivables of $17.4 million and $9.4 million are included within “Other Assets” as of January 31, 2019 and October 31, 2018, respectively.
(2) Total U.S. government accounts receivable, including unbilled receivables, outstanding as of January 31, 2019 and October 31, 2018 were $0.8 million and $2.3 million, respectively.

The Company bills customers for power plant and power plant component sales based on certain contractual milestones being reached. The Company bills service agreements based on the contract price and billing terms of the contracts. Generally, the Company’s Advanced Technologies contracts are billed based on actual revenues recorded, typically in the subsequent month. Some Advanced Technologies contracts are billed based on contractual milestones or costs incurred. Unbilled receivables relate to revenue recognized on customer contracts that have not been billed. Accounts receivable are presented net of an allowance for doubtful accounts of $0.3 million and $0.2 million as of January 31, 2019 and October 31, 2018, respectively. Uncollectible accounts receivable are charged against the allowance for doubtful accounts when all collection efforts have failed and it is deemed unlikely that the amount will be recovered.

Note 5. Inventories

Inventories as of January 31, 2019 and October 31, 2018 consisted of the following:

	January 31, 2019	October 31, 2018
Raw materials	$27,993	$24,467
Work-in-process [1]	26,809	29,108
Inventories	$54,802	$53,575

(1) Work-in-process includes the standard components of inventory used to build the typical modules or module components that are intended to be used in future project asset construction, power plant orders or for use under the Company's service agreements. Included in work-in-process as of January 31, 2019 and October 31, 2018 was $17.2 million and $19.0 million, respectively, of completed standard components.

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FUELCELL ENERGY, INC.

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Raw materials consist mainly of various nickel powders and steels, various other components used in producing cell stacks and purchased components for balance of plant. Work-in-process inventory is comprised of material, labor, and overhead costs incurred to build balance of plant components, fuel cell stacks and modules, which are subcomponents of a power plant.

The Company incurred excess plant capacity and manufacturing variances of $3.2 million and $2.7 million for the three months ended January 31, 2019 and 2018, respectively, which were included within product cost of revenues on the consolidated statements of operations.

Note 6. Project Assets

Project assets as of January 31, 2019 and October 31, 2018 were $109.8 million and $99.6 million, respectively. Project assets as of January 31, 2019 and October 31, 2018 included five completed, commissioned installations generating power with respect to which the Company has a PPA with the end-user of power and site host with an aggregate carrying value of $27.2 million and $28.6 million as of January 31, 2019 and October 31, 2018, respectively. Certain of these assets are the subject of sale-leaseback arrangements with PNC Energy Capital, LLC ("PNC"), which are accounted for under the financing method.

The Project assets balance as of January 31, 2019 and October 31, 2018 also includes assets with an aggregate value of $82.6 million and $71.0 million, respectively, which are being developed and constructed by the Company under existing PPAs and have not been placed in service.

Project construction costs incurred for the long-term project assets are reported as investing activities in the Consolidated Statements of Cash Flows. The proceeds received from the sale and subsequent leaseback of project assets are classified as "Cash flows from financing activities" within the Consolidated Statements of Cash Flows and are classified as a financing obligation within "Current portion of long-term debt" and "Long-term debt and other liabilities" on the Consolidated Balance Sheets (refer to Note 14, "Debt and Financing Obligation" for more information).

Note 7. Other Current Assets

Other current assets as of January 31, 2019 and October 31, 2018 consisted of the following:

	January 31, 2019	October 31, 2018
Advance payments to vendors (1)	$ 2,647	$ 2,696
Deferred finance costs (2)	128	97
Prepaid expenses and other (3)	5,498	5,799
Other current assets	$ 8,273	$ 8,592

(1) Advance payments to vendors relate to payments for inventory purchases ahead of receipt.
(2) Represents the current portion of direct deferred finance costs that relate primarily to securing the $40.0 million loan facility with Clearway Energy which are being amortized over the five-year life of the facility and securing the $100.0 million credit facility with Generate Lending, LLC which are being amortized over a one-year period.
(3) Primarily relates to other prepaid expenses including insurance, rent and lease payments.

Note 8. Other Assets

Other assets as of January 31, 2019 and October 31, 2018 consisted of the following:

	January 31, 2019	October 31, 2018
Long-term stack residual value (1)	$987	$1,206
Long-term unbilled receivables (2)	17,401	9,385
Other (3)	4,679	2,914
Other assets	$23,067	$13,505

FUELCELL ENERGY, INC.

Notes to Consolidated Financial Statements

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(Tabular amounts in thousands, except share and per share amounts)

(1) Relates to estimated residual value for module exchanges performed under the Company's service agreements where the useful life extends beyond the contractual term of the service agreement and the Company obtains title for the module from the customer upon expiration or non-renewal of the service agreement. If the Company does not obtain rights to title from the customer, the full cost of the module is expensed at the time of the module exchange.

(2) Represents unbilled receivables that relate to revenue recognized on customer contracts that will be billed in future periods in excess of twelve months from the balance sheet date.

(3) The Company entered into an agreement with one of its customers on June 29, 2016 that includes a fee for the purchase of the power plants at the end of the term of the agreement. The fee is payable in installments over the term of the agreement and the total paid as of January 31, 2019 and October 31, 2018 was $2.0 million. Also included within "Other" are long-term security deposits.

Note 9. Accrued Liabilities

Accrued liabilities as of January 31, 2019 and October 31, 2018 consisted of the following:

	January 31, 2019	October 31, 2018
Accrued payroll and employee benefits	$2,738	$2,550
Accrued product warranty cost [1]	104	147
Accrued service agreement costs [2]	4,536	2,029
Accrued legal, taxes, professional and other	3,673	2,906
Accrued liabilities	$11,051	$7,632

(1) Activity in the accrued product warranty costs for the three months ended January 31, 2019 represents reductions related to actual warranty spend of $0.04 million as contracts progress through the warranty period or are beyond the warranty period.

(2) The loss accruals on service contracts were $0.9 million as of October 31, 2018 which increased to $2.3 million as of January 31, 2019. The accruals for performance guarantees increased from $1.1 million as of October 31, 2018 to $2.2 million as of January 31, 2019. The changes in the accruals are a result of the impact of the adoption of Topic 606.

Note 10. Stockholders' Equity

Changes in stockholders' equity

Changes in stockholders' equity were as follows for the three months ended January 31, 2019:

	Total Stockholders' Equity
Balance as of October 31, 2018	$ 82,194
Share-based compensation	987
Fee adjustment for common stock issuance	90
Common stock issued under benefit plans, net of taxes paid upon vesting of restricted stock awards	27
Preferred dividends – Series B	(800)
Series C convertible preferred stock conversions	1,974
Series C preferred stock adjustment for beneficial conversion feature	6,586
Series C preferred stock redemption value adjustments	(8,550)
Series D convertible preferred stock conversions	4,334
Series D preferred stock redemption accretion	(3,793)
Impact of the adoption of Topic 606	(6,654)
Other comprehensive income - foreign currency translation adjustments	7
Net loss	(17,548)
Balance as of January 31, 2019	$ 58,854

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At Market Issuance Sales Agreement

On June 13, 2018, the Company entered into an At Market Issuance Sales Agreement (the “Sales Agreement”) with B. Riley FBR, Inc. and Oppenheimer & Co. Inc. (together, the “Agents”) to create an at the market equity program under which the Company from time to time may offer and sell shares of its common stock having an aggregate offering price of up to $50,000,000 through the Agents. Under the Sales Agreement, the Agent making the sales will be entitled to a commission in an amount equal to 3.0% of the gross proceeds from such sales. There were no sales under the Sales Agreement during the three months ended January 31, 2019.

Public Offerings and Outstanding Warrants

On May 3, 2017, the Company completed an underwritten public offering of (i) 12,000,000 shares of its common stock, (ii) Series C warrants to purchase 12,000,000 shares of its common stock and (iii) Series D warrants to purchase 12,000,000 shares of its common stock. The Series C warrants have an exercise price of $1.60 per share and a term of five years. The Series D warrants were all exercised prior to October 31, 2018. No shares of common stock were issued upon exercise of the Series C warrants during the first three months of fiscal year 2019.

On July 12, 2016, the Company closed on a registered public offering of securities to a single institutional investor pursuant to a placement agent agreement with J.P. Morgan Securities LLC. In conjunction with the offering, the Company issued 7,680,000 Series A Warrants, all of which remained outstanding as of January 31, 2019, with an exercise price of $5.83 per share.

The following table summarizes outstanding warrant activity during the three months ended January 31, 2019:

	Series A Warrants	Series C Warrants
Balance as of October 31, 2018	7,680,000	11,569,364
Warrants exercised	—	—
Warrants expired	—	—
Balance as of January 31, 2019	7,680,000	11,569,364

Note 11. Redeemable Preferred Stock

The Company is authorized to issue up to 250,000 shares of preferred stock, par value $0.01 per share, issuable in one or more series, of which shares to date have been issued and designated as Series D Convertible Preferred Stock (referred to herein as “Series D Preferred Stock”), Series C Convertible Preferred Stock (referred to herein as “Series C Preferred Stock”) and 5% Series B Cumulative Convertible Perpetual Preferred Stock (referred to herein as “Series B

Preferred Stock").

Series D Preferred Stock

On August 27, 2018, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Oppenheimer & Co. Inc. (the "Underwriter"), relating to an underwritten offering (the "Offering") of the Company's Series D Preferred Stock with a par value of $0.01 per share. Subject to the terms and conditions contained in the Underwriting Agreement, the Underwriter agreed to purchase, and the Company agreed to sell, 30,680 shares of Series D Preferred Stock ("Series D Preferred Shares"), which were initially convertible into 22,231,884 shares of the Company's common stock (without regard to any limitation on conversion set forth in the Certificate of Designations, Preferences and Rights of the Series D Preferred Stock of the Company (the "Series D Certificate of Designation"), at an initial conversion price of $1.38 per share, subject to certain adjustments ("Series D Conversion Price").

The Offering closed on August 29, 2018. The net proceeds to the Company from the sale of the Series D Preferred Stock, after deducting the underwriting discounts and commissions and the offering expenses payable by the Company, were approximately $25.3 million.

In conjunction with the closing of the Offering, on August 29, 2018, the Company filed the Series D Certificate of Designation with the Secretary of State of the State of Delaware, designating 30,680 shares of the Company's preferred stock as Series D Convertible Preferred Stock and establishing the rights, preferences, privileges, qualifications, restrictions, and limitations relating to the Series D Preferred Stock, as described below.

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During the three months ended January 31, 2019, holders of the Series D Preferred Stock converted 5,254 Series D Preferred Shares into 11,185,733 shares of common stock through installment conversions resulting in a reduction of $4.3 million to the carrying value being recorded to equity. Installment conversions in which the conversion price is below $1.38 (the conversion price of the Series D Preferred Stock as of January 31, 2019) result in a variable number of shares being issued to settle the installment amount and are treated as a partial redemption of the Series D Preferred Shares. Installment conversions during the three months ended January 31, 2019 that were settled in a variable number of shares and treated as redemptions resulted in deemed dividends of $1.9 million. The deemed dividends represent the difference between the fair value of the shares of common stock issued to settle the installment amounts and the carrying value of the Series D Preferred Shares.

The Series D Preferred Stock redemption accretion of $3.8 million for the three months ended January 31, 2019 reflects the accretion of the difference between the carrying value and the amount that would be redeemed should stockholder approval not be obtained for common stock issuance equal to 20.0% or more of the Company's outstanding voting stock prior to the issuance of the Series D Preferred Stock. In the event that the Company is unable to obtain such stockholder approval and is therefore prohibited from issuing shares of common stock as a result of this limitation (the "Exchange Cap Shares") to a holder of Series D Preferred Stock at any time after April 30, 2019, the Company shall pay cash to such holder in exchange for the redemption of such number of Series D Preferred Shares held by such holder that are not convertible into such Exchange Cap Shares at a price equal to the product of (i) such number of Exchange Cap Shares and (ii) the closing sale price on the trading day immediately preceding the date such holder delivers the applicable conversion notice with respect to such Exchange Cap Shares to the Company.

Based on review of pertinent accounting literature including ASC 470 – Debt, ASC 480 - Distinguishing Liabilities from Equity and ASC 815 - Derivative and Hedging, the Series D Preferred Shares are classified outside of permanent equity on the Consolidated Balance Sheets and were recorded at fair value on the issuance date (proceeds from the issuance, net of direct issuance cost). As discussed above, the Company has not obtained stockholder approval to issue a number of shares of common stock equal to 20% or more of the Company's outstanding voting stock prior to the issuance of the Series D Preferred Stock and therefore is accreting the difference between the carrying value and redemption value if stockholder approval is not obtained. As of January 31, 2019, the Company determined that none of the other contingent redemption features were probable.

A description of certain terms and provisions of the Series D Preferred Shares is as follows:

Conversion Right. The Series D Preferred Shares are convertible into shares of the Company's common stock, subject to the requirements of Nasdaq Listing Rule 5635(d) and the beneficial ownership limitation provided in the Series D Certificate of Designation, at a conversion price equal to $1.38 per share of common stock, subject to adjustment as provided in the Series D Certificate of Designation, including adjustments if the Company sells shares of common stock or equity securities convertible into or exercisable for shares of common stock, at prices below $1.38 per share, in certain types of transactions. The holders are prohibited from converting Series D Preferred Shares into shares of common stock if, as a result of such conversion, such holder, together with its affiliates, would own more than 4.99% of the total number of shares of common stock then issued and outstanding. Each holder has the right to increase its maximum percentage up to 9.99% upon 60 days' notice to the Company. Additionally, prior to receiving stockholder approval of the issuance of 20.0% or more of the Company's outstanding voting stock prior to the issuance of the Series D Preferred Stock, the holders will be prohibited from converting Series D Preferred Shares into shares of common stock if such conversion would cause the Company to issue pursuant to the terms of the Series D Preferred Stock a number of shares in excess of the maximum number of shares permitted to be issued thereunder without breaching the Company's obligations under the rules or regulations of Nasdaq.

The Series D Conversion Price is subject to adjustment under certain circumstances in accordance with the Series D Certificate of Designation, including the following:

- The conversion price may be proportionately reduced in the event of a subdivision of the Company's common stock into a greater number of shares or proportionately increased in the event of a combination of the Company's common stock into a smaller number of shares.

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- In the event that the Company in any manner issues or sells or enters into any agreement to issue or sell Variable Price Securities (as defined in the Series D Certificate of Designation), which generally includes any common stock, options or convertible securities that are issuable at a price which varies or may vary with the market price of the shares of common stock, including by way of one or more reset(s) to a fixed price, but excluding customary anti-dilution provisions (each of the formulations for such variable price being referred to as, the "Variable Price"), each holder of Series D Preferred Shares will have the right (in its sole discretion) to substitute the Variable Price for the Conversion Price upon conversion of the Series D Preferred Shares. Sales of common stock pursuant to the Company's At Market Issuance Sales Agreement with B. Riley FBR, Inc. and Oppenheimer & Co., Inc. will be deemed Variable Price Securities with a Variable Price equal to the lowest price per share at which common stock is sold pursuant to that agreement. Under the Series D Certificate of Designation, the term "options" means any rights, warrants or options to subscribe for or purchase shares of common stock or convertible securities, and the term "convertible securities" means any stock or other security (other than options) that is at any time and under any circumstances, directly or indirectly, convertible into, exercisable or exchangeable for, or which otherwise entitles the holder thereof to acquire, any shares of common stock.

- At any time any Series D Preferred Shares remain outstanding, the Company may reduce the then current conversion price to any amount for any period of time deemed appropriate by the Company's board of directors.

- The Series D Conversion Price or redemption amounts paid by the Company may also be adjusted upon the occurrence of certain triggering events as set forth in the Series D Certificate of Designation and summarized below under "Conversion Upon a Triggering Event" and "Redemption Upon a Triggering Event."

Conversion Upon a Triggering Event. Subject to the requirements of Nasdaq Listing Rule 5635(d) and the beneficial ownership limitations provided in the Series D Certificate of Designation, in the event of a triggering event (as defined in the Series D Certificate of Designation and summarized below), the holders of Series D Preferred Shares may elect to convert such shares into shares of common stock at a conversion price equal to the lower of the Series D Conversion Price in effect on the Trading Day (as such term is defined in the Series D Certificate of Designation) immediately preceding the delivery of the conversion notice and 85% of the lowest VWAP of the common stock on any of the five consecutive Trading Days ending on the Trading Day immediately prior to delivery of the applicable conversion notice. This conversion right commences on the date of the triggering event and ends on the later of (i) the date the triggering event is cured and (ii) ten Trading Days after the Company delivers notice of the triggering event.

A triggering event (as defined in the Series D Certificate of Designation) includes, without limitation:

- any failure to pay any amounts due to the holders of the Series D Preferred Shares;

- the Company's failure to timely deliver shares;

- the suspension of the Company's common stock from trading or failure to be trading or listed on The Nasdaq Global Market, without obtaining a listing on another national securities exchange, for a period of five consecutive Trading Days;

- subject to limited exceptions, the Company's failure for more than ten consecutive days to keep reserved for issuance 150% of the number of shares of common stock issuable upon conversion of the outstanding Series D Preferred Shares;

- certain bankruptcy events; and

- breaches of certain covenants that are not timely cured, where a cure period is permitted.

Redemption. Commencing on December 1, 2018, and on the sixteenth day and first day of each calendar month thereafter until March 1, 2020, subject to extension in certain circumstances (the "Series D Maturity Date"), the Company will redeem the stated value of Series D Preferred Stock, or $30,680,000, in thirty-one equal installments of approximately $989,677 (each bi-monthly amount, a "Series D Installment Amount" and the date of each such payment, a "Series D Installment Date"). The holders will have the ability to defer installment payments, but not beyond the Series D Maturity Date. In addition, during each period commencing on the 11th Trading Day prior to a Series D Installment Date and prior to the immediately subsequent Series D Installment Date, the holders may elect to accelerate the conversion of Series D Preferred Shares at then applicable installment conversion price, provided that the holders may not elect to effect any such acceleration during such installment period if either (a) in the aggregate, all the accelerations in such installment period exceed the sum of three other Series D Installment Amounts, or (b) the number of Series D Preferred Shares subject to prior accelerations exceeds in the aggregate twelve Series D Installment Amounts.

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Subject to the requirements of Nasdaq Listing Rule 5635(d) and certain beneficial ownership limitations, the Company may elect to pay the Series D Installment Amounts in cash or shares of common stock or in a combination of cash and shares of common stock, except that the Company's right to make payment in shares of common stock, or an installment conversion, is dependent upon satisfying certain equity conditions set forth in the Series D Certificate of Designation. The failure to satisfy such equity conditions is referred to herein as an equity conditions failure. Among other things, these equity conditions include the Company's continued listing on The Nasdaq Global Market or another permitted exchange, the Company reserving 150% of the number of shares of common stock necessary to effect the conversion of the Series D Preferred Shares that then remain outstanding (without regard to any limitations on conversions, such as limitations imposed by Nasdaq Listing Rule 5635(d) or the beneficial ownership limitations) during the applicable measurement period, and the Company's common stock maintaining certain minimum average prices and trading volumes during the applicable measurement period. Upon an equity conditions failure, a holder of Series D Preferred Shares may waive such failure (subject to certain exceptions) and receive the Series D Installment Amount in shares of our common stock based on the installment conversion price (calculated as described in the following paragraph). Alternatively, a holder of Series D Preferred Shares may elect to receive all or part of the Series D Installment Amount due in cash, which shall include an 8% premium to the Series D Installment Amount.

Series D Installment Amounts paid in shares will be that number of shares of common stock equal to (a) the applicable Series D Installment Amount, to be paid in common stock divided by (b) the lesser of (i) the then existing conversion price, (ii) 87.5% of the volume weighted average price ("VWAP") of the common stock on the Trading Day immediately prior to the applicable Series D Installment Date, and (iii) 87.5% of the arithmetic average of the two lowest VWAPs of the common stock during the ten consecutive Trading Day period ending and including the Trading Day immediately prior to the applicable Series D Installment Date as applicable, provided that the Company meets standard equity conditions. The Company shall make such election no later than the eleventh Trading Day immediately prior to the applicable Series D Installment Date.

If the Company elects or is required to pay a Series D Installment Amount in whole or in part in cash, the amount paid will be equal to 108% of the applicable Series D Installment Amount.

Redemption Upon a Triggering Event. In the event of a triggering event (as defined in the Series D Certificate of Designation and summarized above), the holders of Series D Preferred Shares may require the Company to redeem such Series D Preferred Shares in cash at a price equal to the greater of (a) 125% of the stated value of the Series D Preferred Shares being redeemed plus accrued dividends, if any, and (b) the market value of the number of shares issuable on conversion of the Series D Preferred Shares, valued at the greatest closing sales price during the period from the date immediately before the triggering event through the date the Company makes the redemption payment.

Redemption Upon a Change of Control. In the event of a change of control, as defined in the Series D Certificate of Designation, the holders of Series D Preferred Shares can force redemption at a price equal to the greater of (a) the conversion amount to be redeemed multiplied by 125%, (b) the product of (i) the conversion amount being redeemed multiplied by (ii) the quotient determined by dividing (A) the greatest closing sale price of the common stock on any Trading Day during the period commencing immediately preceding the earlier to occur of (1) the consummation of the applicable change of control and (2) the public announcement of such change of control and ending on the date such holder delivers the change of control redemption notice, by (B) the conversion price then in effect and (c) the product of (i) the conversion amount being redeemed multiplied by (ii) the quotient determined by dividing (A) the aggregate value of the cash and non-cash consideration per share of common stock being paid to holders of common stock in the change of control transaction by (B) the conversion price then in effect. Redemptions of the Series D Preferred Shares required under the Series D Certificate of Designation in connection with a change of control will have priority over payments to all other stockholders of the Company in connection with such change of control.

Dividends. Each holder of Series D Preferred Shares shall be entitled to receive dividends (a) if no triggering event, as defined in the Series D Certificate of Designation, has occurred and is continuing when and as declared by the Company's board of directors, in its sole and absolute discretion or (b) if a triggering event has occurred and until such triggering event has been cured, a dividend of 15% per annum based on the holder's outstanding number of Series D Preferred Shares multiplied by the stated value. The holders of Series D Preferred Shares also have the right to participate in any dividend or other distribution made to holders of common stock to the same extent as if they had converted their Series D Preferred Shares.

Liquidation Preference. In the event of the liquidation, dissolution, or winding up of the Company, prior to distribution to holders of securities ranking junior to the Series D Preferred Stock, holders of Series D Preferred Shares will be entitled to receive the amount of cash, securities or other property equal to the greater of (a) the stated value thereof on the date of such payment plus accrued dividends,

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if any and (b) the amount per share such holder would receive if such holder converted such Series D Preferred Shares into common stock immediately prior to the date of such payment.

Ranking. Shares of Series D Preferred Stock rank with respect to dividend rights and rights upon the liquidation, winding up or dissolution of the Company:

- senior to shares of the Company's common stock;
- junior to the Company's debt obligations;
- junior to the Company's outstanding Series B Preferred Stock;
- pari passu to the Company's outstanding Series C Preferred Stock; and
- effectively junior to the Company's subsidiaries' (i) existing and future liabilities and (ii) capital stock held by others.

Limited Voting Rights. The holders of Series D Preferred Shares have no voting rights, except as required by law; provided, however, that any amendment to the Company's certificate of incorporation or bylaws or the Series D Certificate of Designation that adversely affects the powers, preferences and rights of the Series D Preferred Stock requires the approval of the holders of a majority of the Series D Preferred Shares then outstanding.

Participation Rights. Until August 29, 2019, the holders of the Series D Preferred Shares have the right to receive notice of and to participate in any offering, issuance or sale of equity or equity-equivalent securities by the Company or its subsidiaries, other than issuances under certain employee benefit plans, upon the conversion of certain options or other convertible securities, or pursuant to certain acquisitions or strategic transactions. Pursuant to such participation rights, the Company must offer to issue and sell to such holders at least 35% of the offered securities.

Nasdaq Marketplace Rule 5635(d). Pursuant to the requirements of Nasdaq Listing Rule 5635(d), the Series D Preferred Shares may not be converted or redeemed by payment of shares of the Company's common stock if such conversion or redemption would cause the Company to issue a number of shares equal to 20% or more of the Company's outstanding voting stock prior to the issuance of the Series D Preferred Shares, until the Company's stockholders approve such issuance. The Company has filed a proxy statement with the SEC for the purpose of having the Company's stockholders vote on a proposal to approve such issuances.

Refer to Note 17, "Subsequent Events" for information regarding certain waivers granted to the Company by the holder of Series D Preferred Stock and other information regarding the treatment of the Series D Preferred Stock.

Series C Preferred Stock

The Company issued an aggregate of 33,500 shares of its Series C Convertible Preferred Stock ("Series C Preferred Stock" and such shares, the "Series C Preferred Shares"), $0.01 par value and $1,000 stated value per share, during the fiscal year ended October 31, 2017. As of January 31, 2019 and October 31, 2018, there were 6,917 and 8,992 shares, respectively, of Series C Preferred Stock issued and outstanding with a carrying value of $7.5 million for each period.

During the three months ended January 31, 2019, holders of the Series C Preferred Stock converted 2,075 Series C Preferred Shares into shares of common stock through installment conversions resulting in a reduction of $2.0 million to the carrying value being recorded to equity. In order to resolve different interpretations of the provisions of the Certificate of Designations, Preferences and Rights of the Series C Preferred Stock of the Company (the "Series C Certificate of Designations") that govern adjustments to the conversion price in connection with sales of common stock under the Company's at-the-market stock sales plan below the initial conversion price and whether such sales constitute sales of variable priced securities under the Series C Certificate of Designations, the Company's board of directors agreed to reduce the conversion price of the Series C Preferred Shares from $1.84 to $1.50 effective August 27, 2018 in exchange for a waiver of certain anti-dilution and price adjustment rights under the Series C Certificate of Designations for future at-the-market sales of common stock. The conversion price of the Series C Preferred Shares was adjusted again on December 3, 2018 to $0.58, on December 17, 2018 to $0.50 and on January 2, 2019 to $0.43. Installment conversions occurring during the three months ended January 31, 2019 in which the installment conversion price was below the adjusted conversion prices of $1.50 per share, $0.58 per share, $0.50 per share or $0.43 per share (as in effect on applicable installment conversion dates) resulted in a variable number of shares being issued to settle the installment amount and were treated as a partial redemption of the Series C Preferred Shares. Installment conversions during the three months ended January 31, 2019 that were settled in a variable number of shares and treated as partial redemptions resulted in deemed dividends of $0.5 million. The deemed dividends represent the difference between the fair value of the common shares issued to settle the installment amounts and the carrying value of the Series C Preferred Shares.

Based on review of pertinent accounting literature including Accounting Standards Codification ("ASC") 470 – Debt, ASC 480 - Distinguishing Liabilities from Equity and ASC 815 - Derivative and Hedging, the Series C Preferred Shares are classified outside of permanent equity on the Consolidated Balance Sheets and were recorded at fair value on the issuance date (proceeds from the issuance, net of direct issuance cost). The decline in the Company's stock price during the three months ended January 31, 2019 resulted in equity conditions failures under the Series C Certificate of Designations, which were subsequently (after quarter end) waived by the holder of the Series C Preferred Stock in that certain Waiver Agreement, dated February 21, 2019, between the Company and the holder of Series C Preferred Stock (see Note 17, "Subsequent Events" for additional information). Prior to the execution of such Waiver Agreement, the conversion price was adjusted in December 2018 and January 2019 as described in the paragraph above, such that the conversion price in effect as of January 31, 2019 was $0.43. This beneficial conversion feature resulted in a $6.6 million reduction in the Series C Preferred Shares carrying value. Because the equity conditions failures were continuing as of January 31, 2019 (prior to the execution of the Waiver Agreement), the Series C Preferred Shares were adjusted to 108% of stated redemption value as of January 31, 2019 with a corresponding charge to common shareholders of $8.6 million.

Under the Waiver Agreement (executed after quarter end), the Company was deemed to have reduced the conversion price of the Series C Preferred Shares converted between the time of the equity conditions failures and the date of the Waiver Agreement as necessary to cause the number of shares of common stock delivered upon such conversions to equal the number of shares issuable upon conversion at such times.

A summary of certain terms of the Series C Preferred Stock, as in effect as of January 31, 2019, follows. (Please see Note 17, "Subsequent Events" for information regarding certain waivers granted to the Company by the holder of Series C Preferred Stock, related conversion price adjustments, and other information regarding the treatment of the Series C Preferred Stock after February 21, 2019.)

Conversion Rights. As of January 31, 2019, the Series C Preferred Shares were convertible into shares of common stock subject to the beneficial ownership limitations provided in the Series C Certificate of Designations, at a conversion price equal to $0.43 per share. The conversion price is subject to further adjustment as provided in the Series C Certificate of Designations, including adjustments if the Company sells shares of common stock or equity securities convertible into or exercisable for shares of common stock, at variable prices below the conversion price then in effect. In the event of a triggering event, as defined in the Series C Certificate of Designations, the Series C Preferred Shares are convertible into shares of common stock at a conversion price equal to the lower of the conversion price then in effect and 85% of the lowest VWAP of the common stock of the five trading days immediately prior to delivery of the applicable conversion notice. The holders will be prohibited from converting Series C Preferred Shares into shares of common stock if, as a result of such conversion, such holder, together with its affiliates, would own more than 8.99% of the total number of shares of common stock then issued and outstanding. Each holder has the right to increase its maximum percentage up to 9.99% upon 60 days' notice to the Company.

Installment Payments. On November 1, 2017 and on the sixteenth day and first day of each calendar month thereafter until March 1, 2019, subject to extension in certain circumstances (the “Series C Maturity Date”), inclusive, the Company will redeem the stated value of Series C Preferred Shares in thirty-three equal installments of approximately $1.0 million (each bimonthly amount, a “Series C Installment Amount” and the date of each such payment, a “Series C Installment Date”). The holders will have the ability to defer installment payments, but not beyond the Series C Maturity Date. In addition, during each period commencing on the 11th trading day prior to a Series C Installment Date and prior to the immediately subsequent Series C Installment Date, the holders may elect to accelerate the conversion of Series C Preferred Shares at the then applicable installment conversion price, provided that the holders may not elect to effect any such acceleration during such installment period if either (a) in the aggregate, all the accelerations in such installment period exceed the sum of three other Series C Installment Amounts, or (b) the number of Series C Preferred Shares subject to prior accelerations exceeds in the aggregate twelve Series C Installment Amounts.

Subject to certain conditions as provided in the Series C Certificate of Designations, the Company may elect to pay the Series C Installment Amounts in cash or shares of common stock or in a combination of cash and shares of common stock.

Series C Installment Amounts paid in shares will be that number of shares of common stock equal to (a) the applicable Series C Installment Amount, to be paid in common stock divided by (b) the least of (i) the then existing conversion price, (ii) 87.5% of the VWAP of the common stock on the trading day immediately prior to the applicable Series C Installment Date, and (iii) 87.5% of the arithmetic average of the two lowest VWAPs of the common stock during the ten consecutive trading day period ending and including

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the trading day immediately prior to the applicable Series C Installment Date as applicable, provided that the Company meets standard equity conditions. The Company shall make such election no later than the eleventh trading day immediately prior to the applicable Series C Installment Date.

If the Company elects or is required to pay a Series C Installment Amount in whole or in part in cash, the amount paid will be equal to 108% of the applicable Series C Installment Amount.

Dividends. Each holder of the Series C Preferred Shares shall be entitled to receive dividends (a) if no triggering event, as defined in the Series C Certificate of Designations, has occurred and is continuing when and as declared by the Company's board of directors, in its sole and absolute discretion or (b) if a triggering event has occurred and until such triggering event has been cured, a dividend of 15% per annum based on the holder's outstanding number of Series C Preferred Shares multiplied by the stated value. There were no triggering events or dividends declared in fiscal year 2017, fiscal year 2018 or during the three months ended January 31, 2019.

Redemption. In the event of a triggering event, as defined in the Series C Certificate of Designations, the holders of the Series C Preferred Shares can force redemption at a price equal to the greater of (a) the conversion amount to be redeemed multiplied by 125% and (b) the product of (i) the conversion rate with respect to the conversion amount in effect at such time as such holder delivers a triggering event redemption notice multiplied by (ii) the greatest closing sale price of the common stock on any trading day during the period commencing on the date immediately preceding such triggering event and ending on the date the Company makes the entire payment required.

Liquidation. In the event of the Company's liquidation, dissolution, or winding up, prior to distribution to holders of securities ranking junior to the Series C Preferred Shares, holders of Series C Preferred Shares will be entitled to receive the amount of cash, securities or other property equal to the greater of (a) the stated value thereof on the date of such payment plus accrued dividends, if any and (b) the amount per share such holder would receive if such holder converted such Series C Preferred Shares into common stock immediately prior to the date of such payment.

Ranking and Voting Rights. Shares of Series C Preferred Stock rank with respect to dividend rights and rights upon the Company's liquidation, winding up or dissolution:

- senior to shares of the Company's common stock;
- junior to the Company's debt obligations;
- junior to the Company's outstanding Series B Preferred Stock;
- pari passu to the Company's outstanding Series D Preferred Stock (which was issued on August 29, 2018); and
- effectively junior to the Company's subsidiaries' (i) existing and future liabilities and (ii) capital stock held by others.

The holders of the Series C Preferred Shares have no voting rights, except as required by law, provided, however, that any amendment to the Company's certificate of incorporation or bylaws or the Series C Certificate of Designations that adversely affects the powers, preferences and rights of the Series C Preferred Shares requires the approval of the holders of a majority of the Series C Preferred Shares then outstanding.

Refer to Note 17, “Subsequent Events” for information regarding certain waivers granted to the Company by the holder of Series C Preferred Stock, related conversion price adjustments, and other information regarding the treatment of the Series C Preferred Stock.

Redeemable Series B Preferred Stock

As of January 31, 2019, the Company had 105,875 shares of 5% Series B Cumulative Convertible Perpetual Preferred Stock (Liquidation Preference $1,000.00 per share) (“Series B Preferred Stock”) authorized for issuance. As of January 31, 2019 and October 31, 2018, there were 64,020 shares of Series B Preferred Stock issued and outstanding, with a carrying value of $59.9 million. Dividends of $0.8 million were paid in cash for each of the three month periods ended January 31, 2019 and 2018, respectively.

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Class A Cumulative Redeemable Exchangeable Preferred Shares

As of January 31, 2019, FCE FuelCell Energy Ltd. had 1,000,000 Class A Cumulative Redeemable Exchangeable Preferred Shares (the “Series 1 Preferred Shares”) issued and outstanding, which are held by Enbridge, Inc. (“Enbridge”), which is a related party. The Company made its scheduled payments of Cdn. $0.3 million during each of the three month periods ended January 31, 2019 and 2018 under the terms of the Company’s agreement with Enbridge. The Company also recorded interest expense, which reflects the amortization of the fair value discount of approximately Cdn. $0.7 million for the three months ended January 31, 2019 and 2018. As of January 31, 2019 and October 31, 2018, the carrying value of the Series 1 Preferred Shares was Cdn. $21.3 million (U.S. $16.2 million) and Cdn. $20.9 million (U.S. $15.9 million), respectively, and is classified as a preferred stock obligation of subsidiary on the Consolidated Balance Sheets.

Note 12. Loss Per Share

The calculation of basic and diluted loss per share was as follows:

	Three Months Ended January 31,	
	2019	2018
Numerator		
Net loss	$(17,548)	$(4,183)
Series B preferred stock dividends	$(800)	$(800)
Series C preferred stock deemed dividends and redemption value adjustment	(9,005)	(3,463)
Series D Preferred stock deemed dividends and redemption accretion	(5,685)	—
Net loss attributable to common stockholders	$(33,038)	$(8,446)
Denominator		
Weighted average basic common shares	99,860,421	72,024,811
Effect of dilutive securities (1)	—	—
Weighted average diluted common shares	99,860,421	72,024,811
Basic loss per share	$(0.33)	$(0.12)
Diluted loss per share (1)	$(0.33)	$(0.12)

(1) Due to the net loss to common stockholders in each of the periods presented above, diluted loss per share was computed without consideration to potentially dilutive instruments as their inclusion would have been antidilutive. As of January 31, 2019 and 2018, potentially dilutive securities excluded from the diluted loss per share calculation are as follows:

	January 31, 2019	January 31, 2018
May 2017 Offering - Series C Warrants	11,569,364	11,573,364
May 2017 Offering - Series D Warrants	—	525,308
July 2016 Offering - Series A Warrants	7,680,000	7,680,000
Outstanding options to purchase common stock	323,486	281,175
Unvested Restricted Stock Awards	1,100,591	1,789,581
Unvested Restricted Stock Units	3,400,922	1,185,001
Series C Preferred Shares to satisfy conversion requirements (1)	17,211,968	13,512,717
Series D Preferred Shares to satisfy conversion requirements (2)	18,424,965	—
5% Series B Cumulative Convertible Preferred Stock	454,043	454,043
Series 1 Preferred Shares to satisfy conversion requirements	15,168	15,166
Total potentially dilutive securities	60,180,507	37,016,355

(1) The number of shares of common stock issuable upon conversion of the Series C Preferred Stock was calculated using the liquidation preference value outstanding on January 31, 2019 of $7.5 million divided by the reduced conversion price of $0.43 and the liquidation preference of $24.2 million divided by the conversion price of $1.84 as of January 31, 2018. The actual number of shares issued could vary depending on the actual market price of the Company’s common shares on the date of such conversions.

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(2) The number of shares of common stock issuable upon conversion of the Series D Preferred Stock was calculated using the liquidation preference value outstanding on January 31, 2019 of $25.4 million divided by the conversion price of $1.38. The actual number of shares issued could vary depending on the actual market price of the Company's common shares on the date of such conversions.

Note 13. Restricted Cash

As of January 31, 2019 and October 31, 2018, there was $40.5 million and $40.9 million, respectively, of restricted cash and cash equivalents pledged as collateral for letters of credit for certain banking requirements and contractual commitments. The restricted cash balance for both periods presented includes $15.0 million which has been placed in a Grantor's Trust account to secure certain obligations under a 15-year service agreement and has been classified as long-term. The restricted cash balance as of January 31, 2019 and October 31, 2018 also includes $17.4 million and $17.7 million, respectively, to support obligations related to PNC sale-leaseback transactions. As of January 31, 2019 and October 31, 2018, outstanding letters of credit totaled $2.6 million and $3.8 million, respectively. These expire on various dates through August 2025.

Note 14. Debt and Financing Obligation

Debt as of January 31, 2019 and October 31, 2018 consisted of the following:

	January 31, 2019	October 31, 2018
Connecticut Development Authority Note	$—	$284
Connecticut Green Bank Note	6,052	6,052
Finance obligation for sale-leaseback transactions	45,696	46,062
State of Connecticut Loan	10,000	10,000
Hercules Loan and Security Agreement	25,488	25,343
New Britain Renewable Energy Term Loan	959	1,107
NRG Loan Facility	5,750	—
Generate Lending Construction Loan	10,000	—
Enhanced Capital Loan and Security Agreement	1,500	—
Capitalized lease obligations	337	341
Deferred finance costs	(1,407)	(1,311)
Total debt	$104,375	$87,878
Current portion of long-term debt and financing obligation	(38,869)	(17,596)
Long-term debt	$65,506	$70,282

The Company has a long-term loan agreement with the Clean Energy Finance and Investment Authority, now known as the Connecticut Green Bank, providing a total of $5.9 million in support of the Bridgeport Fuel Cell Park project. The loan agreement carries an interest rate of 5.0 percent per annum. Interest only payments commenced in January 2014 and principal payments will commence on the eighth anniversary of the project’s provisional acceptance date, which is December 20, 2021, payable in forty-eight equal monthly installments. Outstanding amounts are secured by future cash flows from the Bridgeport Fuel Cell Park service agreement.

In 2015, the Company entered into the first of a series of agreements with PNC, whereby the Company’s project finance subsidiaries entered into sale-leaseback agreements for commissioned projects where the Company had entered into a PPA with the site host/end-user of produced power. Under the financing method of accounting for a sale-leaseback, the Company does not recognize as income any of the sale proceeds received from the lessor that contractually constitute payments to acquire the assets subject to these arrangements. Instead, the sale proceeds received are accounted for as financing obligations. The outstanding financing obligation balance as of January 31, 2019 was $45.7 million and the decrease from $46.1 million on October 31, 2018 includes lease payments offset by the recognition of interest expense. The outstanding financing obligation includes an embedded gain which will be recognized at the end of the lease term.

In November 2015, the Company entered into a definitive Assistance Agreement with the State of Connecticut and received a disbursement of $10.0 million, which was used for the first phase of the expansion of the Company’s Torrington, Connecticut manufacturing facility. In conjunction with this financing, the Company entered into a $10.0 million promissory note and related security agreements securing the loan with equipment liens and a mortgage on its Danbury, Connecticut location. Under the Agreement, the Company was eligible for forgiveness of up to 50 percent of the loan principal if the Company created 165 full-time positions and retained 538 full-time positions for two consecutive years (the "Employment Obligation") as measured on October 28, 2017 (the "Target Date"). The Agreement was subsequently amended in April 2017 to extend the Target Date by two years to October 28, 2019.

In January 2019, the Company and the State of Connecticut entered into a Second Amendment to the Assistance Agreement (the "Second Amendment"). The Second Amendment extends the Target Date to October 31, 2022 and amends the Employment Obligation to require the Company to maintain 538 full-time positions for 24 consecutive months. If the Company meets the Employment Obligation, as modified by the Second Amendment, and creates an additional 91 full-time positions, the Company may receive a credit in the amount of $2.0 million to be applied against the outstanding balance of the loan. The Second Amendment deletes and cancels the provisions of the Agreement related to the second phase of the expansion project and the loans related thereto, but the Company had not drawn any funds or received any disbursements under those provisions.

In April 2016, the Company entered into a loan and security agreement (the "Hercules Agreement") with Hercules Capital, Inc. ("Hercules") for an aggregate principal amount of up to $25.0 million, subject to certain terms and conditions, of which the Company drew down $20.0 million during fiscal year 2016. The loan was a 30 month secured facility. The term loan interest rate was 9.75 percent per annum as of October 31, 2017 and increased to 10.0 percent per annum as of January 31, 2018 as a result of the increase in the prime rate. In addition to interest, which is paid on a monthly basis, principal payments commenced on November 1, 2017 in equal monthly installments. The loan balance and all accrued and unpaid interest was due and payable by October 1, 2018. Under the terms of the Hercules Agreement, there was an end of term charge of $1.7 million due on October 31, 2018, which was being accreted over the 30-month term using the effective interest rate method.

The Hercules Agreement was subsequently amended on September 5, 2017, October 27, 2017, March 28, 2018, August 29, 2018 and December 19, 2018. The March 28, 2018 amendment (the "March Amendment") allowed the Company to draw a term loan advance of $13.1 million and extended the maturity date. The aggregate amount outstanding as of January 31, 2019, which includes the amount outstanding under the original Hercules Agreement of $11.9 million and the term loan advance under the March Amendment, was $25.0 million. The term loan maturity date is April 1, 2020. Payments for the aggregate amount outstanding are interest-only for the initial 12-month period, followed by equal monthly installments of principal and interest until the term loan maturity date. The term loan interest rate was 10.15% per annum and increased to 10.40% per annum in June 2018, 10.65% per annum in September 2018 and 10.90% per annum in December 2018 as a result of increases in the prime rate. The term loan interest rate is the greater of either (i) 9.90% plus the prime rate minus 4.50%, and (ii) 9.90%. The initial end of term charge of $1.7 million was paid on October 1, 2018. An additional end of term charge of $0.9 million will be due on April 1, 2020, subject to extension upon the Company's achievement of certain performance milestones. The additional end of term charge is being accreted over a 30-month term.

On August 29, 2018, in connection with the issuance of the Series D Preferred Stock, the Company and Hercules (and various affiliated entities) entered into the fourth amendment to the Hercules Agreement to (i) modify the definition of

"Permitted Indebtedness" to include certain redemption and/or conversion rights as set forth in the Series D Certificate of Designation, (ii) permit the Company, so long as no event of default has occurred and is continuing, to repurchase or redeem stock in cash pursuant to the redemption and/or conversion rights set forth in the Series D Certificate of Designation; provided that, the Company must make any such repurchase, redemption or payment in common stock and not in cash or other consideration unless prohibited pursuant to the terms of the Series D Certificate of Designation or otherwise prohibited by applicable law, (iii) permit the Company, so long as no event of default has occurred and is continuing, to pay cash dividends under the Series D Preferred Shares as required in the Series D Certificate of Designation; provided that, the Company must pay such dividends in common stock and not in cash or other consideration unless prohibited pursuant to the terms of the Series D Certificate of Designation or otherwise prohibited by applicable law, and (iv) add a new event of default, which occurs upon the delivery of a Triggering Event Redemption Notice (as defined under the Series D Certificate of Designation) under the Series D Certificate of Designation.

As collateral for obligations under the Hercules Agreement, the Company granted Hercules a security interest in FuelCell Energy, Inc.'s existing and thereafter-acquired assets except for intellectual property and certain other excluded assets. The collateral does not include assets held by FuelCell Energy Finance, LLC ("FuelCell Finance") or any project subsidiary thereof. The Company may continue to collateralize and finance its project subsidiaries through other lenders and partners. As of January 31, 2019, the Hercules Agreement, as amended, included a minimum cash covenant requiring the Company to maintain an unrestricted cash balance in accounts subject to an account control agreement in favor of Hercules of at least the greater of (a) 75% of the outstanding loan balance plus (b) the amount of accounts payable (as defined under GAAP) not paid within 90 days of the invoice date. (See Note 17, "Subsequent Events" for a discussion of a further amendment to the Hercules Agreement and the minimum cash covenant.) The Hercules Agreement, as amended,

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contains customary representations and warranties, affirmative and negative covenants, and events of default that entitle Hercules to cause the indebtedness under the agreement to become immediately due and payable.

In November 2016, the Company assumed debt with Webster Bank in the amount of $2.3 million as a part of an asset acquisition transaction. The term loan interest rate is 5.0 percent per annum and payments, which commenced in January 2017, are due on a quarterly basis. The balance outstanding as of January 31, 2019 and October 31, 2018 was $1.0 million and $1.1 million, respectively.

In July 2014, the Company, through its wholly-owned subsidiary, FuelCell Finance, entered into a Loan Agreement with NRG (the "Loan Agreement"). Pursuant to the Loan Agreement, NRG has extended a $40.0 million Loan Facility to FuelCell Finance for the purpose of accelerating project development by the Company and its subsidiaries. Under the Loan Agreement, FuelCell Finance and its subsidiaries were permitted to draw on the Loan Facility to finance the construction of projects through the commercial operating date of the power plants. Additionally, FuelCell Finance had the option to continue the financing term for each project after the commercial operating date for a minimum term of five years per project. The interest rate is 8.5 percent per annum for construction-period financing and 8.0 percent per annum thereafter. The Loan Facility expires on the earlier of the commercial operation date or March 31, 2019, therefore, any draws under the facility would be considered short-term debt.

On December 13, 2018, FuelCell Finance's wholly owned subsidiary, Central CA Fuel Cell 2, LLC, drew a construction loan advance of $5.8 million under the Loan Facility. This advance will be used to support the completion of construction of the 2.8 MW Tulare BioMAT project in California. This plant is expected to meet its commercial operations date in March 2019. In conjunction with the December 13, 2018 draw, FuelCell Finance and NRG entered into an amendment to the NRG Agreement (the "Amendment") to revise the definitions of the terms "Maturity Date" and "Project Draw Period" under the NRG Agreement and to make other related revisions. Pursuant to the Amendment, FuelCell Finance and its subsidiaries could only request draws through December 31, 2018 and the Maturity Date of each draw is the earlier of (a) March 31, 2019 and (b) the commercial operation date or substantial completion date, as applicable, with respect to the fuel cell project owned by the borrower under such note. There are currently no other drawdowns or outstanding balances under the Loan Facility.

On December 21, 2018, the Company, through its indirect wholly-owned subsidiary FuelCell Energy Finance II, LLC ("FCEF II" or "Borrower"), entered into a Construction Loan Agreement (the "Agreement") with Generate Lending, LLC ("Lender" or "Generate Lending") pursuant to which Generate Lending agreed (the "Commitment") to make available to FCEF II a credit facility in an aggregate principal amount of up to $100.0 million and, subject to further Lender approval and available capital, up to $300.0 million if requested by the Company (the "Facility") and approved by Generate Lending to fund the manufacture, construction, installation, commissioning and start-up of stationary fuel cell projects to be developed by the Company on behalf of Borrower during the Availability Period (as defined below and in the Agreement). Fuel cell projects must meet certain conditions to be determined to be "Approved Projects" under the Facility. The Facility will be comprised of multiple loans to individual Approved Projects (each, a "Working Capital Loan"). Each Working Capital Loan will be sized to the lesser of (i) 100% of the construction budget and (ii) the invested amount that allows Lender to achieve a 10% unlevered, after-tax inefficient internal rate of return. Approved Projects will be funded at milestones on a cost incurred basis. FCEF II and the Company will contribute any additional equity required to construct an Approved Project on a pari-passu basis with the Working Capital Loans. The Commitment to provide Working Capital Loans will remain in place for thirty-six months from the date of the Agreement (the “Availability Period”). Interest will accrue at 9.5% per annum, calculated on a 30/360 basis, on all outstanding principal, paid on the first business day of each month. The initial draw amount under this facility, funded at closing, was $10.0 million.

The maturity date for the outstanding principal amount of each Working Capital Loan will be the earlier of (a) the achievement of the Commercial Operation Date under the Engineering, Procurement and Construction (“EPC”) Agreement for such Approved Project, (b) ninety days prior to the required Commercial Operation Date under the Revenue Contract (as defined in the Agreement), or (c) upon certain defaults by Borrower. The Lender has the right to issue a notice to the Borrower that the Commitment, and that all Working Capital Loans shall be due and payable on September 30, 2019; provided that such notice shall be issued by the Lender, if at all, during the ten (10) day period beginning on June 20, 2019 and ending on (and including) June 30, 2019. If the Lender delivers such notice, all of the Working Capital Loans, together with all accrued and unpaid interest thereon, shall be due and payable in its entirety, without penalty or premium. If the Lender delivers such notice, the Borrower may prepay all then outstanding Working Capital Loans at any time prior to September 30, 2019. Mandatory prepayments are required in the event of (i) material damage or destruction to an Approved Project, (ii) termination or default under an Approved Project’s Revenue Contract, (iii) a change of control, or (iv) failure to achieve Substantial Completion as defined under the EPC Agreement for such Approved Project by the required dates.

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Provided that the Approved Project has been completed as of the maturity date and no defaults exist with respect to the Working Capital Loans for such Approved Project, FCEF II, as determined in its sole discretion, will have a 90-day period to either sell the Approved Project or effect a refinancing, in either case proceeds of which will be used to repay the Working Capital Loan for the Approved Project. In the case of a disposition of the Approved Project, Lender will be entitled to a "Disposition Fee," as described below. In the case where the Working Capital Loan for the Project is refinanced, Lender will have the right to make an equity investment in the Approved Project on terms such that Lender derives an after-tax yield of no less than a 12% internal rate of return on an investment of greater than 10% of the total purchase price. Borrower and Lender will enter into an arrangement to share any returns realized in excess of the foregoing target return. In the event that Borrower does not sell or refinance an Approved Project within ninety days following the Working Capital Loan maturity date (or such other date as may be mutually agreed), then the outstanding balance of the Working Capital Loan on such Approved Project shall convert into a 100% equity ownership of the applicable project company owning such Approved Project through execution of a Membership Interest Purchase Agreement ("MIPA") with the Lender. At that time, the Lender will own the project and Borrower will not have any repayment obligations. Included in the applicable MIPA for each Approved Project subject to this provision will be a conditional purchase price adjustment for Borrower equal to 50% of any distributions to Lender after Lender has achieved a 10% inefficient after-tax, unlevered internal rate of return. In the event that Borrower and Lender are unable to come to terms on a MIPA for any Approved Project, the Working Capital Loan for such Approved Project will be required to be repaid in full without penalty or premium.

Borrower will pay a draw down fee equal to 3% of the amount of each Working Capital Loan and certain other diligence and administration fees. Upon the sale of any Approved Project to a third party, Lender will be entitled to a disposition fee equal to 3% of the total sale price ("Disposition Fee"). At such time as Lender has made Working Capital Loans in the aggregate amount of greater than $100,000,000 but less than $200,000,000, the Disposition Fee is reduced to 2% and in the aggregate amount of greater than $200,000,000 but less than $300,000,000, the Disposition Fee is reduced to 1%.

The initial draw amount under this Facility, funded at closing, was $10.0 million. The initial draw reflects loan advances for the first Approved Project under the Facility, the Bolthouse Farms 5 MW project in California. Additional drawdowns are expected to take place as the Company completes certain project milestones. The Company expects to use this Facility to fund the construction of its backlog, including the three LIPA projects totaling 39.8 MW and the two projects awarded pursuant to the Connecticut DEEP RFP, totaling 22.2 MW.

On January 9, 2019, the Company, through its indirect wholly-owned subsidiary TRS Fuel Cell, LLC, entered into a Loan and Security Agreement (the "Enhanced Capital Loan Agreement") with Enhanced Capital Connecticut Fund V. LLC in the amount of $1.5 million. Interest will accrue at a rate of 6.0% per annum, calculated on a 30/360 basis, on all outstanding principal, paid on the first business day of each month. The loan maturity date is three years from the date of the Enhanced Capital Loan Agreement upon which the outstanding principal and accrued interest will be payable.

The Company leases computer equipment under master lease agreements. Lease payment terms are generally thirty-six months from the date of acceptance for leased equipment.

Deferred finance costs relate primarily to sale-leaseback transactions entered into with PNC which are being amortized over the ten-year term and direct deferred finance costs relating to the Hercules Agreement, as amended, is being amortized over the 30-month life of the loan.

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(Tabular amounts in thousands, except share and per share amounts)

Note 15. Income Taxes

The Company recorded an income tax benefit totaling $3.0 million for the three months ended January 31, 2018. There was no income tax expense recorded for the three months ended January 31, 2019. The income tax benefit for the three months ended January 31, 2018 primarily related to the Tax Cuts and Jobs Act (the “Act”) that was enacted on December 22, 2017. The Act reduced the U.S. federal corporate tax rate from 34% to 21% effective January 1, 2018 which resulted in a deferred tax benefit of $1.0 million primarily related to a reduction of the Company’s deferred tax liability for in process research and development (“IPR&D”). The Act also established an unlimited carryforward period for the net operating loss (“NOL”) the Company generated in fiscal year 2018. This provision of the Act resulted in a reduction of the valuation allowance attributable to deferred tax assets at the enactment date by $2.0 million based on the indefinite life of the resulting NOL as well as the deferred tax liability for IPR&D.

Note 16. Commitments and Contingencies

Lease Agreements

As of January 31, 2019 and October 31, 2018, the Company had equipment financing and capital lease obligations of $0.3 million. Payment terms are generally thirty-six months from the date of acceptance for leased equipment.

The Company also leases certain computer and office equipment and manufacturing facilities in Torrington and Danbury, Connecticut under operating leases expiring on various dates through 2030.

Non-cancelable minimum payments applicable to operating and capital leases as of January 31, 2019 were as follows:

	Operating Leases	Capital Leases
Due Year 1	$ 811	$ 207
Due Year 2	464	87
Due Year 3	384	21
Due Year 4	377	3
Due Year 5	374	—
Thereafter	2,910	—
Total	$ 5,320	$ 318

Service Agreements

Under the provisions of its service agreements, the Company provides services to maintain, monitor, and repair customer power plants to meet minimum operating levels. Under the terms of such service agreements, the particular power plant must meet a minimum operating output during defined periods of the term. If minimum output falls below the contract requirement, the Company may be subject to performance penalties and/or may be required to repair or replace the customer's fuel cell module(s). Prior to the implementation of the new revenue recognition standard, an estimate for a performance guarantee was not recorded until a performance issue occurred at a particular power plant. At that point, the actual power plant's output was compared against the minimum output guarantee and an accrual was recorded. The review of power plant performance was updated for each reporting period to incorporate the most recent performance of the power plant and minimum output guarantee payments made to customers, if applicable. Under the new revenue recognition standard, performance guarantees are considered variable consideration and as such, an estimate of future performance obligations is calculated for each service agreement based on past payment history and is included as an offset to the service agreement consideration. The Company has previously provided for an accrual for performance guarantees, based on actual fleet performance, which totaled $1.1 million as of October 31, 2018, and was recorded in "Accrued liabilities." Under Topic 606, the liability recorded as of January 31, 2019 is $2.2 million.

The Company's loss accrual on service agreements totaled $2.3 million and $0.9 million as of January 31, 2019 and October 31, 2018, respectively, and is recorded in "Accrued liabilities." The Company's loss accrual estimates are performed on a contract by contract basis and include cost assumptions based on what the Company anticipates the service requirements will be to fulfill obligations under each contract. The increase of $1.4 million is due to the implementation of Topic 606.

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Power Purchase Agreements

Under the terms of the Company's PPAs, customers agree to purchase power from the Company's fuel cell power plants at negotiated rates. Electricity rates are generally a function of the customers' current and estimated future electricity pricing available from the grid. As owner or lessee of the power plants, the Company is responsible for all operating costs necessary to maintain, monitor and repair the power plants. Under certain agreements, the Company is also responsible for procuring fuel, generally natural gas or biogas, to run the power plants.

Other

As of January 31, 2019, the Company had unconditional purchase commitments aggregating $54.4 million, for materials, supplies and services in the normal course of business.

Under certain sales and financing agreements, the Company is contractually committed to provide compensation for any losses that its customers and finance partners may suffer in certain limited circumstances resulting from reductions in realization of the U.S. Investment Tax Credit. Such obligations would arise as a result of reductions to the value of the underlying fuel cell projects as assessed by the U.S. Internal Revenue Service (the "IRS"). The Company does not believe that any payments under these contracts are probable based on the facts known at the reporting date. The maximum potential future payments that the Company could have to make with respect to these obligations would depend on the difference between the fair values of the fuel cell projects sold or financed and the values the IRS would determine as the fair value for the systems for purposes of claiming the Investment Tax Credit. The value of the Investment Tax Credit in the Company's agreements is based on guidelines provided by the regulations from the IRS. The Company and its customers use fair values determined with the assistance of independent third-party appraisals.

The Company is involved in legal proceedings, claims and litigation arising out of the ordinary conduct of its business. Although the Company cannot assure the outcome, management presently believes that the result of such legal proceedings, either individually, or in the aggregate, will not have a material adverse effect on the Company's consolidated financial statements, and no material amounts have been accrued in the Company's consolidated financial statements with respect to these matters.

Note 17. Subsequent Events

Construction Loan Agreement

On February 28, 2019, the Company, through its indirect wholly-owned subsidiary Groton Station Fuel Cell, LLC ("Groton Borrower"), entered into a Construction Loan Agreement (the "Construction Loan Agreement") with Fifth Third Bank ("Fifth Third") pursuant to which Fifth Third agreed to make available to Groton Borrower a construction loan facility in an aggregate principal amount of up to $23.0 million (the "Groton Facility") to fund the manufacture, construction, installation, commissioning and start-up of the 7.4 megawatt fuel cell power plant for the Connecticut Municipal Electric Energy Cooperative located on the U.S. Navy submarine base in Groton, Connecticut (the "Groton Project"). Groton Borrower made an initial draw under the Groton Facility on the date of closing of $9.6 million.

Amounts borrowed under the Groton Facility bear interest at a rate equal to the sum of the one-month LIBOR Rate plus 2.25 %. Regular monthly payments are interest-only. Amounts borrowed under the Groton Facility may be prepaid at any time without penalty. The maturity date of the Groton Facility will be the earlier of (a) October 31, 2019, (b) the commercial operation date of the Groton Project, or (c) one business day after receipt of proceeds of debt financing (i.e., take out financing) in an amount sufficient to repay the outstanding indebtedness under the Groton Facility. Mandatory prepayments are required in the event of material damage or destruction to the Groton Project or a change of control of Groton Borrower.

The Company has agreed to guarantee Groton Borrower's obligations under the Construction Loan Agreement. In addition, Groton Borrower's obligations under the Construction Loan Agreement are secured by a first mortgage lien on Groton Borrower's leasehold interest in the Groton Project site, a security interest in the Groton Project assets, including material Groton Project related contracts such as the power purchase agreement and EPC agreement, and the Company's equity interest in the Groton Borrower.

The Construction Loan Agreement contains customary representations and warranties, affirmative and negative covenants, and events of default that entitle Fifth Third to cause the indebtedness under the Groton Facility to become immediately due and payable.

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Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts in thousands, except share and per share amounts)

Amendment to Hercules Loan and Security Agreement

On February 28, 2019, the Company and Hercules (and various affiliated entities) entered into the sixth amendment to the loan and security agreement (such amendment, the "Hercules Amendment"), which is effective as of February 22, 2019. Under the Hercules Amendment, the Company is required, at all times following February 22, 2019 through March 31, 2019, to maintain an unrestricted cash balance of at least (a) 50% of the outstanding loan balance, plus (b) the amount of accounts payable (as defined under GAAP) not paid within 90 days of the invoice date, in accounts subject to an account control agreement in favor of Hercules. Further, at all times after March 31, 2019, the Company is required to maintain an unrestricted cash balance of at least (a) 75% of the outstanding loan balance, plus (b) the amount of accounts payable (as defined under GAAP) not paid within 90 days of the invoice date, in accounts subject to an account control agreement in favor of Hercules. In addition, in the event of prepayment, the Hercules Amendment requires the payment of a prepayment charge equal to the following percentage of the advance amount being prepaid: (a) if such advance amounts are prepaid in any of the first twelve months following February 22, 2019, 2.00%, and (b) thereafter, 1.00%. In connection with the execution of the Hercules Amendment, the Company paid a $250,000 non-refundable fee to Hercules.

Waiver Agreement

On February 21, 2019, the Company entered into a waiver agreement (the "Waiver Agreement") with the sole remaining holder of the Series C Preferred Stock (such holder, the "Series C Holder"). Under the Waiver Agreement, the Series C Holder waived any equity conditions failures that may have occurred under the Series C Certificate of Designations. The Series C Holder further waived any triggering event occurring after the date of the Waiver Agreement, as well as its right to demand, require or otherwise receive cash payments under the Series C Certificate of Designations, which waiver will terminate upon the occurrence of certain key triggering events, the occurrence of a fundamental transaction, a breach of the Waiver Agreement, or the occurrence of a bankruptcy triggering event. In addition, the Company agreed in the Waiver Agreement, pursuant to Section 8(d) of the Series C Certificate of Designations, to adjust the conversion price of the Series C Preferred Stock in connection with future conversions, such that, when the Series C Holder converts its Series C Preferred Stock into common stock, it will receive approximately 25% more shares than it would have received upon conversion prior to the execution of the Waiver Agreement and the adjustment of the conversion price. Under the Waiver Agreement, conversions of Series C Preferred Stock may occur after the March 1, 2019 maturity date.

Additionally, the Series C Holder acknowledged in the Waiver Agreement that no anti-dilution or other adjustments under the Series C Certificate of Designations will result from the exchange of the Warrant (as defined below) for shares of, or the issuance of shares of, the Company's common stock pursuant to the Exchange Agreement (as defined below). The Company further agreed to reserve specific numbers of shares for issuance to the Series C Holder and the Series D Holders (as defined below), with such reservations to remain in place until the Company has increased its authorized shares of common stock or effected a reverse stock split. In the event of a reverse stock split, the Company will be required to reserve shares as set forth in the Series C Certificate of Designations (if shares of Series C Preferred Stock are still outstanding) and the Series D Certificate of Designation.

Exchange Agreement

On February 21, 2019, the Company also entered into an Exchange Agreement (the “Exchange Agreement”) with the holder (the “Warrant Holder”) of the Series A Warrant to Purchase Common Stock, issued by the Company on July 12, 2016 (the “Warrant”), which was exercisable for 7,680,000 shares of the Company’s common stock. Pursuant to the Exchange Agreement, the Company has agreed to issue to the Warrant Holder 6,000,000 shares of the Company’s common stock (subject to adjustment for stock dividends, stock splits, stock combinations, and other reclassifications) in exchange for the transfer of the Warrant back to the Company, in reliance on an exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, as amended. Following the transfer of the Warrant back to the Company, the Warrant shall be cancelled and no further shares shall be issuable pursuant to the Warrant.

Consent and Waiver

On February 21, 2019, the Company entered into a Consent and Waiver with each of the holders of the Series D Preferred Stock (such holders, the “Series D Holders”), pursuant to which the Series D Holders consented to the adjustments to the conversion price of the Series C Preferred Stock set forth in the Waiver Agreement and waived certain anti-dilution rights and conversion price adjustments under the Series D Certificate of Designation that may have resulted from the conversion price adjustments set forth in the Waiver Agreement. The Series D Holders further acknowledged that no anti-dilution or other adjustments under the Series D Certificate of Designation will result from the exchange of the Warrant for shares of, or the issuance of shares of, the Company’s common stock pursuant to the Exchange Agreement.

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Additionally, the parties agreed to implement new “pre-notice” procedures in connection with the notices to be given to the Series D Holders of subsequent placements (and their participation rights therein) under the Series D Certificate of Designation, and the Company agreed to reserve specific numbers of shares for issuance to the Series D Holders, with such reservations to remain in place until the Company has increased its authorized shares of common stock or effected a reverse stock split. In the event of a reverse stock split, the Company will be required to reserve shares as set forth in the Series D Certificate of Designation.

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (including exhibits and any information incorporated by reference herein) contains both historical and forward-looking statements that involve risks, uncertainties and assumptions. The statements contained in this report that are not purely historical are forward-looking statements that are subject to the safe harbors created under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, beliefs, intentions and strategies for the future. When used in this report, the words "expects," "anticipates," "estimates," "projects," "intends," "plans," "believes," "predicts," "should," " "would", "may", "forecast", and similar expressions and variations of such words are intended to identify forward-looking statements. Such statements relate to, among other things, the following: (i) the development and commercialization by FuelCell Energy, Inc. and its subsidiaries of fuel cell technology and products and the market for such products; (ii) expected operating results such as revenue growth and earnings; (iii) our belief that we have sufficient liquidity to fund our business operations for the next 12 months; (iv) future funding under Advanced Technologies contracts; (v) future financing for projects including publicly issued bonds, equity and debt investments by investors and commercial bank financing; (vi) the expected cost competitiveness of our technology; and (vii) our ability to achieve our sales plans and cost reduction targets.

The forward-looking statements contained in this report are subject to risks and uncertainties, known and unknown, that could cause actual results to differ materially from those forward-looking statements, including the risks contained in our Annual Report on Form 10-K for the fiscal year ended October 31, 2018 in the section entitled "Item 1A. Risk Factors," and the following: general risks associated with product development and manufacturing; general economic conditions; changes in the utility regulatory environment; changes in the utility industry and the markets for distributed generation, distributed hydrogen, and carbon capture configured fuel cell power plants; potential volatility of energy prices; availability of government subsidies and economic incentives for alternative energy technologies; our ability to remain in compliance with U.S. federal and state and foreign government laws and regulations; rapid technological change; competition; our dependence on strategic relationships; market acceptance of our products; changes in accounting policies or practices adopted voluntarily or as required by accounting principles generally accepted in the United States,; factors affecting our liquidity position and financial condition; government appropriations; the ability of the government to terminate its development contracts at any time; the ability of the government to exercise "march-in" rights with respect to certain of our patents; recent developments with POSCO Energy, which may limit our efforts to access the South Korean and Asian markets and could expose us to costs of arbitration or litigation proceedings; our ability to implement our strategy; our ability to reduce our levelized cost of energy and our cost reduction strategy generally; our ability to protect our intellectual property; litigation and other proceedings; the risk that commercialization of our products will not occur when anticipated; our need for and the availability of additional financing; our ability to generate positive cash flow from operations; our ability to service our long-term debt; our ability to increase the output and longevity of our power plants and our ability to expand our customer base and maintain relationships with our largest customers and strategic business allies.

We cannot assure you that we will be able to meet any of our development or commercialization schedules; any of our new products or technology, once developed, will be commercially successful; our existing SureSource power plants will remain commercially successful; the government will appropriate the funds anticipated by us under our government contracts; the government will not exercise its right to terminate any or all of our government contracts; or we will be able to achieve any other result anticipated in any other forward-looking statement contained herein.

Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, many of which are beyond our ability to control, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors discussed herein.

Management's Discussion and Analysis of Financial Condition and Results of Operations is provided as a supplement to the accompanying financial statements and footnotes to help provide an understanding of our financial condition, changes in our financial condition and results of operations. The preparation of financial statements and related disclosures requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Estimates are used in accounting for, among other things, revenue recognition, contract loss accruals, excess, slow-moving and obsolete inventories, product warranty accruals, loss accruals