

FUELCELL ENERGY INC  
Form 10-Q  
June 09, 2016

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 April 30, 2016

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer ☐ Accelerated filer ☒  
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐  
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒  
Number of shares of common stock, par value \$.0001 per share, outstanding as of June 6, 2016: 31,386,019

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FORM 10-Q  
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## FUELCELL ENERGY, INC.

## Consolidated Balance Sheets

(Unaudited)

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

|                                                                                                                                                                                                                                                         | April 30,<br>2016 | October 31,<br>2015 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|---------------------|
| <b>ASSETS</b>                                                                                                                                                                                                                                           |                   |                     |
| Current assets:                                                                                                                                                                                                                                         |                   |                     |
| Cash and cash equivalents, unrestricted                                                                                                                                                                                                                 | \$81,982          | \$58,852            |
| Restricted cash and cash equivalents - short-term                                                                                                                                                                                                       | 9,029             | 6,288               |
| Accounts receivable, net                                                                                                                                                                                                                                | 43,689            | 60,790              |
| Inventories                                                                                                                                                                                                                                             | 66,222            | 65,754              |
| Project assets                                                                                                                                                                                                                                          | 13,380            | 5,260               |
| Other current assets                                                                                                                                                                                                                                    | 8,466             | 6,954               |
| Total current assets                                                                                                                                                                                                                                    | 222,768           | 203,898             |
| Restricted cash and cash equivalents - long-term                                                                                                                                                                                                        | 25,655            | 20,600              |
| Project assets noncurrent                                                                                                                                                                                                                               | 16,671            | 6,922               |
| Property, plant and equipment, net                                                                                                                                                                                                                      | 29,135            | 29,002              |
| Goodwill                                                                                                                                                                                                                                                | 4,075             | 4,075               |
| Intangible assets                                                                                                                                                                                                                                       | 9,592             | 9,592               |
| Other assets, net                                                                                                                                                                                                                                       | 2,016             | 3,142               |
| Total assets                                                                                                                                                                                                                                            | \$309,912         | \$277,231           |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                                                                                                                           |                   |                     |
| Current liabilities:                                                                                                                                                                                                                                    |                   |                     |
| Current portion of long-term debt                                                                                                                                                                                                                       | \$11,619          | \$7,358             |
| Accounts payable                                                                                                                                                                                                                                        | 14,622            | 15,745              |
| Accrued liabilities                                                                                                                                                                                                                                     | 25,836            | 19,175              |
| Deferred revenue                                                                                                                                                                                                                                        | 23,506            | 31,787              |
| Preferred stock obligation of subsidiary                                                                                                                                                                                                                | 856               | 823                 |
| Total current liabilities                                                                                                                                                                                                                               | 76,439            | 74,888              |
| Long-term deferred revenue                                                                                                                                                                                                                              | 21,616            | 22,646              |
| Long-term preferred stock obligation of subsidiary                                                                                                                                                                                                      | 13,027            | 12,088              |
| Long-term debt and other liabilities                                                                                                                                                                                                                    | 44,807            | 12,998              |
| Total liabilities                                                                                                                                                                                                                                       | 155,889           | 122,620             |
| Redeemable preferred stock (liquidation preference of \$64,020 as of April 30, 2016 and October 31, 2015)                                                                                                                                               | 59,857            | 59,857              |
| Total equity:                                                                                                                                                                                                                                           |                   |                     |
| Shareholders' equity:                                                                                                                                                                                                                                   |                   |                     |
| Common stock (\$.0001 par value); 75,000,000 and 39,583,333 shares authorized as of April 30, 2016 and October 31, 2015, respectively; 30,804,069 and 25,964,710 shares issued and outstanding as of April 30, 2016 and October 31, 2015, respectively. | 3                 | 3                   |
| Additional paid-in capital                                                                                                                                                                                                                              | 960,891           | 934,488             |
| Accumulated deficit                                                                                                                                                                                                                                     | (865,758)         | (838,673)           |
| Accumulated other comprehensive loss                                                                                                                                                                                                                    | (307)             | (509)               |
| Treasury stock, Common, at cost (21,527 and 5,845 shares as of April 30, 2016 and October 31, 2015, respectively)                                                                                                                                       | (179)             | (78)                |
| Deferred compensation                                                                                                                                                                                                                                   | 179               | 78                  |

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|                                                              |           |           |
|--------------------------------------------------------------|-----------|-----------|
| Total shareholders' equity                                   | 94,829    | 95,309    |
| Noncontrolling interest in subsidiaries                      | (663)     | (555)     |
| Total equity                                                 | 94,166    | 94,754    |
| Total liabilities and equity                                 | \$309,912 | \$277,231 |
| See accompanying notes to consolidated financial statements. |           |           |

## FUELCELL ENERGY, INC.

## Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

(Amounts in thousands, except share, per share and related party revenue amounts)

|                                                                                                               | Three Months Ended<br>April 30, |             |
|---------------------------------------------------------------------------------------------------------------|---------------------------------|-------------|
|                                                                                                               | 2016                            | 2015        |
| Revenues:                                                                                                     |                                 |             |
| Product sales (including \$12.5 million and \$16.1 million of related party revenues)                         | \$ 15,424                       | \$ 20,221   |
| Service agreements and license revenues (including \$2.3 million and \$2.9 million of related party revenues) | 10,573                          | 4,618       |
| Advanced technologies contract revenues (including \$0.0 million and \$0.2 million of related party revenues) | 2,584                           | 3,761       |
| Total revenues                                                                                                | 28,581                          | 28,600      |
| Costs of revenues:                                                                                            |                                 |             |
| Cost of product sales                                                                                         | 15,118                          | 18,111      |
| Cost of service agreements and license revenues                                                               | 10,988                          | 4,433       |
| Cost of advanced technologies contract revenues                                                               | 2,632                           | 4,033       |
| Total costs of revenues                                                                                       | 28,738                          | 26,577      |
| Gross (loss) profit                                                                                           | (157 )                          | 2,023       |
| Operating expenses:                                                                                           |                                 |             |
| Administrative and selling expenses                                                                           | 7,441                           | 6,261       |
| Research and development expenses                                                                             | 5,110                           | 4,555       |
| Total costs and expenses                                                                                      | 12,551                          | 10,816      |
| Loss from operations                                                                                          | (12,708 )                       | (8,793 )    |
| Interest expense                                                                                              | (982 )                          | (626 )      |
| Other income (expense), net                                                                                   | (1,547 )                        | (523 )      |
| Loss before provision for income taxes                                                                        | (15,237 )                       | (9,942 )    |
| Provision for income taxes                                                                                    | (177 )                          | (55 )       |
| Net loss                                                                                                      | (15,414 )                       | (9,997 )    |
| Net loss attributable to noncontrolling interest                                                              | 41                              | 103         |
| Net loss attributable to FuelCell Energy, Inc.                                                                | (15,373 )                       | (9,894 )    |
| Preferred stock dividends                                                                                     | (800 )                          | (800 )      |
| Net loss attributable to common shareholders                                                                  | \$(16,173)                      | \$(10,694 ) |
| Loss per share basic and diluted:                                                                             |                                 |             |
| Net loss per share attributable to common shareholders                                                        | \$(0.56 )                       | \$(0.44 )   |
| Basic and diluted weighted average shares outstanding                                                         | 28,782,066                      | 24,252,182  |

|                                                              | Three Months<br>Ended April 30, |            |
|--------------------------------------------------------------|---------------------------------|------------|
|                                                              | 2016                            | 2015       |
| Net loss                                                     | (15,414 )                       | (9,997 )   |
| Other comprehensive income (loss):                           |                                 |            |
| Foreign currency translation adjustments                     | 420                             | (52 )      |
| Comprehensive loss                                           | \$(14,994)                      | \$(10,049) |
| See accompanying notes to consolidated financial statements. |                                 |            |



**FUELCELL ENERGY, INC.**
**Consolidated Statements of Operations and Comprehensive Loss**

(Unaudited)

(Amounts in thousands, except share, per share and related party revenue amounts)

|                                                                                                               | Six Months Ended<br>April 30, |             |
|---------------------------------------------------------------------------------------------------------------|-------------------------------|-------------|
|                                                                                                               | 2016                          | 2015        |
| Revenues:                                                                                                     |                               |             |
| Product sales (including \$25.3 million and \$38.2 million of related party revenues)                         | \$40,497                      | \$53,639    |
| Service agreements and license revenues (including \$4.6 million and \$4.8 million of related party revenues) | 16,893                        | 8,489       |
| Advanced technologies contract revenues (including \$0.0 million and \$0.6 million of related party revenues) | 4,673                         | 8,142       |
| Total revenues                                                                                                | 62,063                        | 70,270      |
| Costs of revenues:                                                                                            |                               |             |
| Cost of product sales                                                                                         | 39,507                        | 48,459      |
| Cost of service agreements and license revenues                                                               | 17,839                        | 8,001       |
| Cost of advanced technologies contract revenues                                                               | 5,040                         | 7,773       |
| Total costs of revenues                                                                                       | 62,386                        | 64,233      |
| Gross (loss) profit                                                                                           | (323 )                        | 6,037       |
| Operating expenses:                                                                                           |                               |             |
| Administrative and selling expenses                                                                           | 13,481                        | 11,901      |
| Research and development expenses                                                                             | 10,421                        | 8,059       |
| Total costs and expenses                                                                                      | 23,902                        | 19,960      |
| Loss from operations                                                                                          | (24,225 )                     | (13,923 )   |
| Interest expense                                                                                              | (1,827 )                      | (1,290 )    |
| Other income (expense), net                                                                                   | (859 )                        | 1,157       |
| Loss before provision for income taxes                                                                        | (26,911 )                     | (14,056 )   |
| Provision for income taxes                                                                                    | (282 )                        | (95 )       |
| Net loss                                                                                                      | (27,193 )                     | (14,151 )   |
| Net loss attributable to noncontrolling interest                                                              | 108                           | 191         |
| Net loss attributable to FuelCell Energy, Inc.                                                                | (27,085 )                     | (13,960 )   |
| Preferred stock dividends                                                                                     | (1,600 )                      | (1,600 )    |
| Net loss to common shareholders                                                                               | \$(28,685 )                   | \$(15,560 ) |
| Loss per share basic and diluted:                                                                             |                               |             |
| Net loss per share to common shareholders                                                                     | \$(1.04 )                     | \$(0.65 )   |
| Basic and diluted weighted average shares outstanding                                                         | 27,500,236                    | 24,021,705  |

|                                                              | Six Months Ended<br>April 30, |             |
|--------------------------------------------------------------|-------------------------------|-------------|
|                                                              | 2016                          | 2015        |
| Net loss                                                     | \$(27,193 )                   | \$(14,151 ) |
| Other comprehensive income (loss):                           |                               |             |
| Foreign currency translation adjustments                     | 202                           | (340 )      |
| Comprehensive loss                                           | \$(26,991 )                   | \$(14,491 ) |
| See accompanying notes to consolidated financial statements. |                               |             |



FUELCELL ENERGY, INC.  
Consolidated Statements of Cash Flows  
(Unaudited)  
(Amounts in thousands)

|                                                                                                                 | Six Months Ended<br>April 30, |            |
|-----------------------------------------------------------------------------------------------------------------|-------------------------------|------------|
|                                                                                                                 | 2016                          | 2015       |
| Cash flows from operating activities:                                                                           |                               |            |
| Net loss                                                                                                        | \$(27,193)                    | \$(14,151) |
| Adjustments to reconcile net loss to net cash used in operating activities:                                     |                               |            |
| Share-based compensation                                                                                        | 1,663                         | 1,507      |
| Gain from change in fair value of embedded derivatives                                                          | (8 )                          | (3 )       |
| Depreciation                                                                                                    | 2,342                         | 1,944      |
| Interest expense on preferred stock and debt obligations                                                        | 1,226                         | 930        |
| Unrealized foreign exchange gains                                                                               | 560                           | (941 )     |
| Other non-cash transactions, net                                                                                | 303                           | (13 )      |
| Decrease (increase) in operating assets:                                                                        |                               |            |
| Accounts receivable                                                                                             | 17,001                        | 20,854     |
| Inventories                                                                                                     | (468 )                        | (15,982 )  |
| Project assets                                                                                                  | (13,380 )                     | (9,161 )   |
| Other assets                                                                                                    | 571                           | (2,938 )   |
| Increase (decrease) in operating liabilities:                                                                   |                               |            |
| Accounts payable                                                                                                | (1,123 )                      | (2,733 )   |
| Accrued liabilities                                                                                             | 6,319                         | (634 )     |
| Deferred revenue                                                                                                | (9,311 )                      | 9,013      |
| Net cash used in operating activities                                                                           | (21,498 )                     | (12,308 )  |
| Cash flows from investing activities:                                                                           |                               |            |
| Capital expenditures                                                                                            | (2,273 )                      | (3,321 )   |
| Project asset expenditures                                                                                      | (4,724 )                      | —          |
| Net cash used in investing activities                                                                           | (6,997 )                      | (3,321 )   |
| Cash flows from financing activities:                                                                           |                               |            |
| Repayment of debt                                                                                               | (9,095 )                      | (240 )     |
| Proceeds from debt                                                                                              | 44,802                        | 3,000      |
| Payment of deferred finance costs                                                                               | (994 )                        | —          |
| Increase in restricted cash and cash equivalents                                                                | (7,796 )                      | (2,145 )   |
| Payment of preferred dividends and return of capital                                                            | (2,076 )                      | (2,144 )   |
| Proceeds from sale of common stock, net of registration fees                                                    | 26,582                        | 16,773     |
| Net cash provided by financing activities                                                                       | 51,423                        | 15,244     |
| Effects on cash from changes in foreign currency rates                                                          | 202                           | (340 )     |
| Net increase (decrease) in cash and cash equivalents                                                            | 23,130                        | (725 )     |
| Cash and cash equivalents-beginning of period                                                                   | 58,852                        | 83,710     |
| Cash and cash equivalents-end of period                                                                         | \$81,982                      | \$82,985   |
| Supplemental cash flow disclosures:                                                                             |                               |            |
| Cash interest paid                                                                                              | \$541                         | \$326      |
| Noncash financing and investing activity:                                                                       |                               |            |
| Common stock issued for Employee Stock Purchase Plan in settlement of prior year accrued employee contributions | \$105                         | \$168      |
| Accrued sale of common stock, cash received in subsequent period                                                | \$440                         | \$521      |

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. and 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 Direct FuelCell power plants continuously produce base load electricity and usable high quality heat around the clock 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 cash generated from product sales, service and advanced technologies contracts, license fee and royalty income and sales of equity and debt securities. 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 our financial position and results of operations as of and for the six months ended April 30, 2016 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 accounting principles generally accepted in the United States of America have been condensed or omitted. The balance sheet as of October 31, 2015 has been derived from the audited financial statements at that date, but it does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with our financial statements and notes thereto for the year ended October 31, 2015, which are contained in our Annual Report on Form 10-K previously filed with the Securities and Exchange Commission. 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.

Use of Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the U.S. 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, excess, slow-moving and obsolete inventories, product warranty costs, accruals for service agreements, allowance for uncollectible receivables, depreciation and amortization, impairment of goodwill, indefinite-lived intangible assets and long-lived 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.

Related Parties

POSCO Energy (“POSCO”), which is a related party, owned approximately 8.0% of the outstanding common shares of the Company as of April 30, 2016. Revenues from POSCO Energy for the three months ended April 30, 2016 and 2015 represent 52% and 66%, respectively, of consolidated revenues and revenues from POSCO Energy for the six months ended April 30, 2016 and 2015 represent 48% and 59%, respectively, of consolidated revenues.

NRG Energy, Inc. ("NRG") is a related party and owned approximately 5.0% of the outstanding common shares of the Company as of April 30, 2016. NRG Yield is a dividend growth-oriented company formed by NRG Energy, Inc. that owns, operates and acquires a diversified portfolio of contracted renewable and conventional generation and thermal infrastructure assets in the United States. Revenues from NRG and NRG Yield for the three months ended April 30, 2016 and 2015 represent 0.4% and 1.0%, respectively, of consolidated revenues and revenues for the six months ended April 30, 2016 and 2015 represents 0.2% and 3.0%, respectively, of consolidated revenues.

Note 2. Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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,

## FUELCELL ENERGY, INC.

## Notes to Consolidated Financial Statements

(Unaudited)

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

calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The ASU is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the effects that the adoption of ASU 2016-02 will have on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This ASU simplifies the presentation of debt issuance costs by requiring that such costs be presented in the balance sheet as a direct deduction from the carrying value of the associated debt instrument, consistent with debt discounts. The amendments in this ASU are effective for fiscal years beginning after December 15, 2015 and for interim periods therein. Adoption of this ASU is not expected to have a material impact on the Company's consolidated financial position.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." This topic provides for five principles which should be followed to determine the appropriate amount and timing of revenue recognition for the transfer of goods and services to customers. The principles in this ASU should be applied to all contracts with customers regardless of industry. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with two transition methods of adoption allowed. Early adoption for reporting periods prior to December 15, 2016 is not permitted. In March 2015, the FASB voted to defer the effective date by one year, but allow early adoption as of the original adoption date. We are evaluating the financial statement impacts of the guidance in this ASU and determining which transition method we will utilize.

## Note 3. Accounts Receivable

Accounts receivable as of April 30, 2016 and October 31, 2015 consisted of the following:

|                                                                  | April 30, October 31, |           |
|------------------------------------------------------------------|-----------------------|-----------|
|                                                                  | 2016                  | 2015      |
| Commercial Customers:                                            |                       |           |
| Amount billed                                                    | \$8,907               | \$ 19,331 |
| Unbilled recoverable costs                                       | 30,790                | 37,949    |
|                                                                  | 39,697                | 57,280    |
| Advanced Technology (including U.S. Government <sup>(1)</sup> ): |                       |           |
| Amount billed                                                    | 670                   | 433       |
| Unbilled recoverable costs                                       | 3,322                 | 3,077     |
|                                                                  | 3,992                 | 3,510     |
| Accounts receivable, net                                         | \$43,689              | \$ 60,790 |

(1) Total U.S. Government accounts receivable outstanding as of April 30, 2016 and October 31, 2015 was \$3.0 million and \$2.6 million, respectively.

We bill customers for power plant and module kit sales based on certain contractual milestones being reached. We bill service agreements based on the contract price and billing terms of the contracts. Generally, our advanced technology contracts are billed based on actual recoverable costs incurred, typically in the month subsequent to incurring costs. Some advanced technology contracts are billed based on contractual milestones or costs incurred. Unbilled recoverable costs relate to revenue recognized on customer contracts that have not been billed. Accounts receivable are presented net of an allowance for doubtful accounts of \$0.2 million and \$0.5 million as of April 30, 2016 and October 31, 2015, respectively.

Commercial Customers accounts receivable (including Unbilled recoverable costs) included amounts due from POSCO Energy of \$7.8 million and \$34.4 million as of April 30, 2016 and October 31, 2015, respectively and amounts due from NRG and NRG Yield of \$0.02 million as of October 31, 2015. There were no amounts outstanding from NRG and NRG Yield as of April 30, 2016.

## FUELCELL ENERGY, INC.

## Notes to Consolidated Financial Statements

(Unaudited)

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

## Note 4. Inventories

The components of inventory as of April 30, 2016 and October 31, 2015 consisted of the following:

|                                | April 30,<br>2016 | October 31,<br>2015 |
|--------------------------------|-------------------|---------------------|
| Raw materials                  | \$ 28,079         | \$ 29,103           |
| Work-in-process <sup>(1)</sup> | 38,143            | 36,651              |
| Inventories                    | \$ 66,222         | \$ 65,754           |

(1) Included in work-in-process as of April 30, 2016 and October 31, 2015 was \$15.2 million and \$13.3 million, respectively, of completed standard components.

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.

## Note 5. Project Assets

Project assets as of April 30, 2016 and October 31, 2015 consisted of the following:

|                          | April 30,<br>2016 | October<br>31,<br>2015 |
|--------------------------|-------------------|------------------------|
| Current project assets   | \$ 13,380         | \$ 5,260               |
| Long-term project assets | 16,671            | 6,922                  |
| Project assets           | \$ 30,051         | \$ 12,182              |

The current portion of project assets as of April 30, 2016 of \$13.4 million includes project assets that are under construction by the Company under a power purchase agreement ("PPA") and are classified as operating activities in the Consolidated Statement of Cash Flows. This balance will fluctuate based on timing of construction, expected commercial operation dates and sale of the projects to third parties. The Company expects to sell current project assets to third parties.

The long-term portion of project assets as of April 30, 2016 of \$16.7 million relates to project assets that the Company is developing which will either be sold in a period of greater than one year or will be retained on the balance sheet. This balance includes assets built or being built under PPAs which will be retained through a sale-leaseback transaction. The long-term portion of project assets has partially been offset by project related grant awards. Project construction costs incurred after classification as a long-term project assets are reported as investing activities in the Consolidated Statement of Cash Flows. The proceeds received for the sale and subsequent leaseback of project assets are classified as cash flows from financing activities within the Consolidated Statement of Cash Flows and are classified as a financing obligation within Long-term debt and other liabilities on the Consolidated Balance Sheets (refer to Note 12 for more information).

## Note 6. Other Current Assets

Other current assets as of April 30, 2016 and October 31, 2015 consisted of the following:

| April<br>30, | October<br>31, |
|--------------|----------------|
|--------------|----------------|

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|                                            | 2016    | 2015    |
|--------------------------------------------|---------|---------|
| Advance payments to vendors <sup>(1)</sup> | \$1,514 | \$2,281 |
| Deferred finance costs <sup>(2)</sup>      | 493     | 198     |
| Notes receivable                           | 731     | 585     |
| Prepaid expenses and other <sup>(3)</sup>  | 5,728   | 3,890   |
| Other current assets                       | \$8,466 | \$6,954 |

(1) Advance payments to vendors relate to payments for inventory purchases ahead of receipt.

# FUELCELL ENERGY, INC.

## Notes to Consolidated Financial Statements

(Unaudited)

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

- Primarily represents the current portion of direct deferred finance costs relating to securing a \$40.0 million loan facility with NRG and is being amortized over the five-year life of the facility and direct deferred finance costs relating to the Hercules loan and security agreement entered into in April 2016.
- (3) Primarily relates to other prepaid vendor expenses including insurance, rent and lease payments.

## Note 7. Other Assets, net

Other assets, net as of April 30, 2016 and October 31, 2015 consisted of the following:

|                                               | April 30, October 31, |          |
|-----------------------------------------------|-----------------------|----------|
|                                               | 2016                  | 2015     |
| Long-term stack residual value <sup>(1)</sup> | \$ 327                | \$ 2,509 |
| Deferred finance costs <sup>(2)</sup>         | 869                   | 354      |
| Other                                         | 820                   | 279      |
| Other assets, net                             | \$ 2,016              | \$ 3,142 |

- 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. The decrease from October 31, 2015 represents the residual value being recognized as cost of service agreements due to contract term extensions.
- (1)

- Represents the long-term portion of direct deferred finance costs relating to securing a \$40.0 million loan facility with NRG and will be amortized over the five-year life of the facility and the long-term portion of direct deferred finance costs relating to sale-leaseback transactions entered into with PNC Energy Capital, LLC which will be amortized over the ten-year term.
- (2)

## Note 8. Accrued Liabilities

Accrued liabilities as of April 30, 2016 and October 31, 2015 consisted of the following:

|                                                | April 30, October 31, |           |
|------------------------------------------------|-----------------------|-----------|
|                                                | 2016                  | 2015      |
| Accrued payroll and employee benefits          | \$3,797               | \$ 3,914  |
| Accrued product warranty cost <sup>(1)</sup>   | 713                   | 964       |
| Accrued material purchase <sup>(2)</sup>       | 11,780                | 7,568     |
| Accrued service agreement costs <sup>(3)</sup> | 6,133                 | 3,437     |
| Accrued taxes, legal, professional and other   | 3,413                 | 3,292     |
| Accrued liabilities                            | \$25,836              | \$ 19,175 |

- Activity in the accrued product warranty costs for the six months ended April 30, 2016 included additions for estimates of future warranty obligations of \$0.2 million on contracts in the warranty period and reductions related to actual warranty spend of \$0.4 million as contracts progress through the warranty period or are beyond the warranty period.
- (1)

- The Company acts as a procurement agent for POSCO Energy under an Integrated Global Supply Chain Agreement whereby the Company procures materials on POSCO's behalf for their Asian production facility. This liability represents amounts received for the purchase of materials on behalf of POSCO. Amounts due to vendors is

recorded as Accounts payable.

Activity in service agreement costs represents an increase in loss accruals on service contracts of \$1.9 million from \$0.8 million as of October 31, 2015 to \$2.7 million as of April 30, 2016. The increase relates to renewals of legacy (3) service contracts. The accruals for performance guarantees also increased from \$2.6 million as of October 31, 2015 to \$3.4 million at April 30, 2016 based on the minimum output falling below the contract requirements for certain contracts.

## FUELCELL ENERGY, INC.

## Notes to Consolidated Financial Statements

(Unaudited)

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

## Note 9. Shareholders' Equity

## Changes in shareholders' equity

Changes in shareholders' equity were as follows for the six months ended April 30, 2016:

|                                                                                            | Total<br>Shareholders'<br>Equity | Noncontrolling<br>interest | Total<br>Equity |
|--------------------------------------------------------------------------------------------|----------------------------------|----------------------------|-----------------|
| Balance as of October 31, 2015                                                             | \$ 95,309                        | \$ (555 )                  | \$ 94,754       |
| Share-based compensation                                                                   | 1,663                            | —                          | 1,663           |
| Sale of common stock, net of registration fees                                             | 26,527                           | —                          | 26,527          |
| Taxes paid upon vesting of restricted stock awards net of stock issued under benefit plans | (187 )                           | —                          | (187 )          |
| Preferred dividends – Series B                                                             | (1,600 )                         | —                          | (1,600 )        |
| Other comprehensive income - foreign currency translation adjustments                      | 202                              | —                          | 202             |
| Net loss                                                                                   | (27,085 )                        | (108 )                     | (27,193 )       |
| Balance as of April 30, 2016                                                               | \$ 94,829                        | \$ (663 )                  | \$ 94,166       |

## Common Stock Sales

The Company may sell common stock on the open market from time to time. The proceeds of these sales may be used for general corporate purposes or to pay obligations related to the Company's outstanding Series 1 and Series B preferred shares. During the six months ended April 30, 2016, the Company sold 4,251,535 shares of the Company's common stock at prevailing market prices through periodic trades on the open market and raised approximately \$26.6 million, net of fees.

## Outstanding Warrants

On July 30, 2014, the Company issued a warrant to NRG in conjunction with the entry into a Securities Purchase Agreement for the sale of common stock. Pursuant to the warrant agreement, NRG has the right to purchase up to 0.2 million shares of the Company's common stock at an exercise price of \$40.20 per share. The warrants qualify for permanent equity accounting treatment and expire on July 30, 2017.

## Note 10. Loss Per Share

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

|                                                  | Three Months Ended<br>April 30, |             | Six Months Ended<br>April 30, |             |
|--------------------------------------------------|---------------------------------|-------------|-------------------------------|-------------|
|                                                  | 2016                            | 2015        | 2016                          | 2015        |
| Numerator                                        |                                 |             |                               |             |
| Net loss                                         | \$(15,414)                      | \$(9,997 )  | \$(27,193 )                   | \$(14,151 ) |
| Net loss attributable to noncontrolling interest | 41                              | 103         | 108                           | 191         |
| Preferred stock dividend                         | (800 )                          | (800 )      | (1,600 )                      | (1,600 )    |
| Net loss attributable to common shareholders     | \$(16,173)                      | \$(10,694 ) | \$(28,685 )                   | \$(15,560 ) |
| Denominator                                      |                                 |             |                               |             |
| Weighted average basic common shares             | 28,782,066                      | 24,252,182  | 27,500,236                    | 24,021,705  |
| Effect of dilutive securities <sup>(1)</sup>     | —                               | —           | —                             | —           |
| Weighted average diluted common shares           | 28,782,066                      | 24,252,182  | 27,500,236                    | 24,021,705  |
| Basic loss per share                             | \$(0.56 )                       | \$(0.44 )   | \$(1.04 )                     | \$(0.65 )   |

Diluted loss per share (1)                      \$(0.56    ) \$(0.44    ) \$(1.04    ) \$(0.65    )

## FUELCELL ENERGY, INC.

## Notes to Consolidated Financial Statements

(Unaudited)

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

Diluted loss per share was computed without consideration to potentially dilutive instruments as their inclusion would have been antidilutive. Potentially dilutive instruments include stock options, unvested restricted stock awards, convertible preferred stock and warrants. As of April 30, 2016 and 2015, there were options to purchase (1) 0.3 million shares of common stock, and as of April 30, 2016 and 2015, there were warrants to purchase 0.2 million and 0.4 million shares of common stock, respectively, which were excluded from the computation as they would be antidilutive.

## Note 11. Restricted Cash

As of April 30, 2016, there was \$34.7 million of restricted cash and cash equivalents pledged as collateral for letters of credit for certain banking requirements and contractual commitments, compared to \$26.9 million of restricted cash and cash equivalents pledged as of October 31, 2015. 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 April 30, 2016 also includes \$9.1 million to support obligations of the power purchase and service agreements related to PNC Energy Capital, LLC sale-leaseback transactions. As of April 30, 2016 and October 31, 2015, outstanding letters of credit totaled \$7.4 million and \$8.7 million, respectively. These expire on various dates through April 2019.

## Note 12. Debt and Finance Obligation

Debt as of April 30, 2016 and October 31, 2015, consisted of the following:

|                                                                | April 30,<br>2016 | October<br>31, 2015 |
|----------------------------------------------------------------|-------------------|---------------------|
| Revolving credit facility                                      | \$—               | \$2,945             |
| Connecticut Development Authority Note                         | 2,704             | 2,817               |
| Connecticut Clean Energy and Finance Investment Authority Note | 6,052             | 6,052               |
| NRG Energy, Inc. Loan Agreement                                | 10,963            | 3,763               |
| PNC Energy Capital, LLC Finance Obligation                     | 6,923             | —                   |
| State of Connecticut Loan                                      | 10,000            | —                   |
| Hercules Loan and Security Agreement                           | 15,044            | —                   |
| Capitalized lease obligations                                  | 673               | 726                 |
| Total debt                                                     | \$52,359          | \$16,303            |
| Current portion of long-term debt and finance obligation       | (11,619 )         | (7,358 )            |
| Long-term debt                                                 | \$40,740          | \$8,945             |

In April 2016, the Company entered into a loan and security agreement with Hercules Capital, Inc. (“Hercules”) for an aggregate principal amount of up to \$25.0 million, subject to certain terms and conditions. The Company made an initial term loan advance on the date of closing of \$15.0 million. The Company may make an additional loan advance of \$5.0 million between the later of October 15, 2016 or the date certain milestones are met and December 15, 2016 (“Tranche II”). FCE may also make a loan advance of \$5.0 million beginning on the later of January 1, 2017 or the date certain milestones are met and June 15, 2017 (“Tranche III”). The loan is a 30 month secured facility and the term loan interest is currently 9.5%. Interest is paid on a monthly basis. During the first year of the loan, interest only payments are to be made and may be extended for up to 24 months upon the Company achieving certain milestones. Currently, principal and interest payments are to commence on May 1, 2017. The loan balance and all accrued and unpaid interest is due and payable by October 1, 2018. Per the terms of the loan and security agreement, there is an end of term charge of \$1.7 million which is being accreted over the 30 month term using the effective interest rate method.

As collateral for obligations under the loan and security agreement, the Company granted Hercules a security interest in FuelCell Energy, Inc.'s existing and hereafter-acquired assets except for intellectual property and certain other excluded assets. Collateral does not include assets held by FuelCell Energy Finance, LLC or any project subsidiary thereof. The Company may continue to collateralize and finance its project subsidiaries through other lenders and partners. The loan contains a financial covenant whereby 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 date payment was issued.

FUELCELL ENERGY, INC.

Notes to Consolidated Financial Statements

(Unaudited)

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

On November 9, 2015, the Company closed on a definitive Assistance Agreement with the State of Connecticut and received a disbursement of \$10.0 million to be used for the first phase of the expansion project to expand the existing 65,000 square foot manufacturing facility in Torrington, Connecticut by approximately 102,000 square feet for a total size of 167,000 square feet. In conjunction with this financing, the Company entered into a \$10.0 million Promissory Note and related security agreement securing the loan with equipment liens and a mortgage on its Danbury, Connecticut location. Pursuant to the terms of the loan, payment of principal is deferred for the first four years. Interest at a fixed rate of 2.0% is payable beginning December 2015. The financing is payable over 15 years, and is predicated on certain terms and conditions, including the forgiveness of up to half of the loan principal if certain job retention and job creation targets are reached.

In 2015, the Company entered into an agreement with PNC Energy Capital, LLC. ("PNC"). Under this agreement, the Company's project finance subsidiaries may enter into up to \$30.0 million of lease agreements for commissioned projects whereby the lease is structured as a sale-leaseback facility for projects where we have entered into a PPA with the end-user of power and site host. On December 23, 2015 the Company closed on its first project with PNC through a sale-leaseback of the UCI Fuel Cell, LLC power plant which initiated commercial operations in December 2015. Proceeds from the transaction totaled approximately \$8.8 million and were partially used to settle outstanding construction period debt to NRG as referenced below. The Company has determined the power plant is considered integral equipment and the Company has accounted for the transaction under the financing method. Under the financing method, the Company does not recognize as income any of the sale proceeds received from the lessor that contractually constitutes payment to acquire the assets subject to these arrangements. Instead, the sale proceeds received are accounted for as financing obligations and leaseback payments made by the Company are allocated between interest expense and a reduction to the financing obligation. Interest on the financing obligation is calculated using the Company's incremental borrowing rate at the inception of the arrangement on the outstanding financing obligation. Judgment is required to determine the appropriate borrowing rate for the arrangement and in determining any gain or loss on the transaction that would be recorded at the end of the lease term. The outstanding finance obligation balance as of April 30, 2016 is \$6.9 million which represents a reduction from the original proceeds due to an upfront lease payment of \$2.1 million.

On July 30, 2014, the Company's subsidiary, FuelCell Energy Finance, LLC ("FuelCell Finance") entered into a Loan Agreement (the "Loan Agreement") with NRG Energy, Inc. ("NRG"). Pursuant to the Loan Agreement, NRG has extended a \$40.0 million revolving construction and term financing facility to FuelCell Finance for the purpose of accelerating project development by the Company and its subsidiaries. FuelCell Finance and its subsidiaries may draw on the facility to finance the construction of projects through the commercial operating date of the power plants. FuelCell Finance has the option to continue the financing term for each project after the commercial operating date for a maximum term of five years per project. The interest rate is 8.5 percent per annum for construction-period financing and 8.0 percent thereafter. Fees that were paid by FuelCell Finance to NRG for making the loan facility available and related legal fees incurred were capitalized and are being amortized straight-line over the life of the related loan agreement, which is five years. During fiscal year 2015, our project finance subsidiary, UCI Fuel Cell LLC borrowed \$3.8 million which was subsequently paid off in December 2015 in conjunction with the PNC sale-leaseback transaction. During the six months ended April 30, 2016, our project finance subsidiaries borrowed a total of \$11.0 million which is secured by project assets held by these subsidiaries. The term of the loans are up to five years but may be repaid early should the projects be sold or refinanced at the option of the Company.

On August 1, 2014, the Company entered into a revolving credit facility with JPMorgan Chase Bank, N.A. (the "Bank") which had a total borrowing capacity of \$4.0 million. The credit facility expired on November 28, 2015 in conjunction with the Export-Import Bank charter expiration and the outstanding balance was paid back on November

24, 2015.

In April 2008, the Company entered into a 10-year loan agreement with the Connecticut Development Authority to finance equipment purchases associated with manufacturing capacity expansion allowing for a maximum amount borrowed of \$4.0 million. The interest rate is 5.0 percent and the loan is collateralized by the assets procured under this loan as well as \$4.0 million of additional machinery and equipment. Repayment terms require monthly interest and principal payments through May 2018.

On March 5, 2013 the Company closed on a long-term loan agreement with the Connecticut Clean Energy and Finance Investment Authority (CEFIA, now known as the CT Green Bank) totaling \$5.9 million in support of the Bridgeport Fuel Cell Park project. The loan agreement carries an interest rate of 5.0 percent. 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.

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FUELCELL ENERGY, INC.

Notes to Consolidated Financial Statements

(Unaudited)

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

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

Note 13. Commitments and Contingencies

Lease agreements

As of April 30, 2016 and October 31, 2015, we had capital lease obligations of \$0.7 million. Lease payment terms are generally thirty-six months from the date of acceptance for leased equipment.

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

A lease modification was entered into for the manufacturing facility in Torrington which has extended the term of the lease for an additional period of fifteen years from January 1, 2016 through December 31, 2030. The term can be further extended for up to three additional periods of five years each at the Company's option subject to certain notification and other provisions outlined in the lease. Rent payments for any additional five year extension of the lease shall be the greater of the fair market rent or the base annual rental being paid during the calendar year previous to the extension period. The Company has the right to purchase the facility and premises as defined within the lease for a price of \$4,750,000 at any time during the fifteen year term, but no later than December 31, 2030 by giving the landlord a minimum of six months prior written notice.

Non-cancelable minimum payments applicable to operating and capital leases at April 30, 2016 were as follows (in thousands):

|            | Operating<br>Leases | Capital<br>Leases |
|------------|---------------------|-------------------|
| Due Year 1 | \$ 1,463            | \$ 423            |
| Due Year 2 | 955                 | 193               |
| Due Year 3 | 800                 | 55                |
| Due Year 4 | 443                 | 2                 |
| Due Year 5 | 325                 | —                 |
| Thereafter | 3,968               | —                 |
| Total      | \$ 7,954            | \$ 673            |

Service Agreements

Under the provisions of our service agreements, we provide services to maintain, monitor, and repair customer power plants to meet minimum operating levels. Under the terms of our service agreements, the power plant must meet a minimum operating output during the term. If minimum output falls below the contract requirement, we may be subject to performance penalties and/or may be required to repair or replace the customer's fuel cell module. An estimate is not recorded for a potential performance guarantee liability until a performance issue has occurred on a particular power plant. At that point, the actual power plant's output is compared against the minimum output guarantee and an accrual is recorded. The review of power plant performance is updated for each reporting period to incorporate the most recent performance of the power plant and minimum output guarantee payments made to customers, if any. The Company has provided for an accrual for performance guarantees, based on actual fleet performance, which totaled \$3.4 million and \$2.6 million at April 30, 2016 and October 31, 2015, respectively, and is recorded in Accrued Liabilities.

Our loss accrual on service agreements, excluding the accrual for performance guarantees, totaled \$2.7 million and \$0.8 million at April 30, 2016 and October 31, 2015, respectively and is recorded in Accrued Liabilities. Our accrual estimates are performed on a contract by contract basis and include cost assumptions based on what we anticipate the

service requirements will be to fulfill obligations for each contract. The increase relates to renewals of legacy service contracts.

FUELCELL ENERGY, INC.

Notes to Consolidated Financial Statements

(Unaudited)

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

Power Purchase Agreements

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

Plant Expansion

On November 9, 2015, the Company closed on a definitive Assistance Agreement with the State of Connecticut and received a disbursement of \$10.0 million to be used for the first phase of the expansion of our 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. Pursuant to the terms of the loan, payment of principal is deferred for the first four years. Interest at a fixed rate of 2.0% is payable beginning December 2015. The financing is payable over 15 years, and is predicated on certain terms and conditions, including the forgiveness of up to 50% of the loan principal if certain job retention and job creation targets are reached. In addition, the Company could receive up to \$10.0 million of tax credits if certain terms and conditions are met. The Company may sell the credits depending on its future tax position.

The second phase of our manufacturing expansion, for which we will be eligible to receive an additional \$10.0 million in low-cost financing from the State of Connecticut, will commence as demand supports. This includes adding manufacturing equipment to increase annual capacity from the current 100 megawatts to at least 200 megawatts. Plans for this phase also include the installation of a megawatt scale tri-generation fuel cell plant to power and heat the facility as well as provide hydrogen for the manufacturing process of the fuel cell components, and the creation of an Advanced Technology Center for technology testing and prototype manufacturing. In addition, the final stage of the fuel cell module manufacturing will be relocated to the Torrington facility from its current location at the Danbury, Connecticut headquarters, which will reduce logistics costs. The total cost of both phases of the expansion could be up to \$65.0 million over a five year period.

Other

As of April 30, 2016, the Company has unconditional purchase commitments aggregating \$58.8 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 our customers and finance partners may suffer in certain limited circumstances resulting from reductions in 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 (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 under this obligation 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 statutory regulations from the IRS. The Company and its customers use fair values determined with the assistance of independent third-party appraisals.

We are involved in legal proceedings, claims and litigation arising out of the ordinary conduct of our business.

Although we 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 our consolidated financial statements, and no material amounts have been accrued in our consolidated financial statements with respect to these

matters.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
ITEM 2. 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", "should", "will", "could", "would", "may", "forecast", and similar expressions 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 ("FuelCell Energy", "Company" "we", "us", and "our") 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 government research and development contracts; (v) future financing for projects including publicly issued bonds, equity and debt investments by investors and commercial bank financing; (vii) the expected cost competitiveness of our technology; and (viii) 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, 2015 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 and the markets for distributed generation, distributed hydrogen, and carbon capture configured fuel cell power plants for coal and gas-fired central generation; potential volatility of energy prices; availability of government subsidies and economic incentives for alternative energy technologies; rapid technological change; competition; 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; POSCO's ability to develop the market in Asia, deploy DFC power plants and successfully operate its Asian manufacturing facility; our ability to implement our strategy; our ability to reduce our levelized cost of energy; the risk that commercial field trials of our products will not occur when anticipated; 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.

We cannot assure you the following: we will be able to meet any of our development or commercialization schedules; 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; any of our new products or technology, once developed, will be commercially successful; our existing DFC power plants will remain commercially successful; 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 risk 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 ("MD&A") 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 in conformity with accounting principles generally accepted in the U.S. 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, excess, slow-moving and obsolete inventories, product warranty costs, reserves on service agreements, allowance for uncollectible receivables, depreciation and amortization, impairment of goodwill, indefinite-lived intangible assets and long-lived 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. The following discussion should be read in conjunction with information included in our Annual Report on Form 10-K for the year ended October 31, 2015 filed with the SEC. Unless otherwise indicated, the terms “Company”, “FuelCell Energy”, “we”, “us”, and “our” refer to FuelCell Energy, Inc. and its subsidiaries. All tabular dollar amounts are in thousands.

## OVERVIEW AND RECENT DEVELOPMENTS

### Overview

We are an integrated fuel cell company with an expanding global presence on three continents. We design, manufacture, sell, install, operate and service ultra-clean, highly efficient stationary fuel cell power plants for distributed power generation. Our power plants provide megawatt-class scalable on-site power and utility grid support, helping customers solve their energy, environmental and business challenges. Our plants are operating in more than 50 locations on three continents and have generated more than 4.5 billion kilowatt hours (kWh) of electricity, which is equivalent to powering more than 438,000 average size U.S. homes for one year. Our growing installed base and backlog exceeds 300 megawatts (MW).

We provide comprehensive turn-key power generation solutions to our customers including installation of the power plants as well as operating and maintaining the plants under multi-year service agreements. We target large-scale power users with our megawatt-class installations. As reference, one megawatt is adequate to power approximately 1,000 average sized US homes. Our customer base includes utility companies, municipalities, universities, government entities and businesses in a variety of Industrial and commercial enterprises. Our leading geographic markets are South Korea and the United States and we are pursuing expanding opportunities in Asia and Europe.

Our value proposition provides highly efficient and environmentally friendly power generation with easy-to-site stationary fuel cell power plants. The power plants are located in populated areas as they are virtually pollutant free, operate quietly and without vibrations, and have only modest space requirements. Locating the power generation near the point of use provides many advantages including less reliance on or even avoidance of the transmission grid leading to enhanced energy security and power reliability. Our power plants provide electricity priced competitively to grid-delivered electricity in certain high cost regions and our strategy is to continue to reduce costs, which is expected to lead to wider adoption.

We are developing Advanced Technologies which leverage our commercial platform and expertise. Our Direct FuelCell® (DFC®) power plants utilize carbonate fuel cell technology, which is a very versatile type of fuel cell technology. Utilizing our core DFC plants, we have developed and are commercializing both a tri-generation distributed hydrogen configuration that generates electricity, heat and hydrogen for industrial or transportation uses, and a carbon capture application for coal or gas-fired power plants. We also are developing and working to commercialize solid oxide fuel cells (SOFC) for adjacent sub-megawatt applications to the markets for our megawatt-class DFC power plants as well as energy storage applications. These applications are complementary to our core products, leverage our existing customer base, project development, sales and service expertise, and are potentially large markets.

### Recent Developments

#### Carbon Capture Joint Development Agreement

The Company's carbonate fuel cells have the potential to affordably and efficiently capture carbon dioxide from large-scale gas and coal-fired power plants while producing power. In the carbon capture context, exhaust flue gas from the coal or natural gas plant is directed to the fuel cell, replacing air that is normally used in combination with natural gas during the fuel cell power generation process. As the fuel cell generates power, the carbon dioxide in the flue gas, which is very dilute, becomes more concentrated, allowing it to be more easily and affordably captured from the fuel cell's exhaust and stored. In addition, the fuel cells can eliminate approximately 70 percent of the smog-producing nitrogen oxide generated by the combustion process of these large-scale power plants. The Company has been actively researching this technology for many years under Department of Energy, Environmental Protection Agency, and private sector programs and views it as a significant market opportunity. The fuel cells used in carbon

capture applications are the same technology currently being manufactured today for the Company's commercial projects.

In April 2016, the Company entered into a Joint Development Agreement ("JDA") with ExxonMobil Research and Engineering ("EMRE"). This is a follow-on agreement to approximately two years of comprehensive lab testing with which the Company has collaborated with EMRE. The scope of the agreement with EMRE will initially focus on how to further increase efficiency in separating and concentrating carbon dioxide from the exhaust of natural gas-fueled power turbines. The second phase of the JDA will more comprehensively test the technology in a 2.8 megawatt pilot project. Designs will also be developed for larger scale integrated applications. The JDA contains certain termination provisions depending on progress of the research. The JDA with EMRE also provides a framework for the two companies to protect and share in intellectual property contributed to and developed in the program. The initial term of the JDA with EMRE is approximately three years with technology rights lasting for the term of any patents that are issued.

#### Market Update

Beacon Falls Project - Subject to the Request for Proposal being awarded to our project, the Beacon Falls Energy Park project is a 63.3 megawatt fuel cell facility proposed to be built at a former sand and gravel mine in Beacon Falls, Connecticut using the Company's fuel cell power plants. This project has been under development for several years and in January, 2016, Beacon Falls Energy Park, LLC submitted a bid for a long term power purchase agreement to The New England Clean Energy Request for Proposals ("RFP") conducted jointly by Connecticut, Rhode Island and Massachusetts to advance their clean and renewable energy goals. The Beacon Falls Energy Park proposal offers the many benefits of renewable, clean and affordable in-state generation, including local and regional tax revenue and enhanced energy resiliency as compared to competing bids utilizing out-of-region generation that is then transported to the region by constructing expensive and difficult to permit transmission. The RFP evaluation team is currently in the Evaluation Phase of the process which, according to the RFP, is expected to be completed by July 26, 2016. Bidder notification and contract awards are scheduled to occur subsequent to the Evaluation Phase, likely in late summer or fall of 2016.

The Beacon Falls Energy Park received a unanimous approval from the Connecticut Siting Council in January of this year that construction of the facility will not have a substantial adverse environmental effect, will meet all applicable US EPA and CT DEEP air and water quality standards, is in accordance with the goals of Connecticut's renewable energy policy and therefore does not require a Certificate of Environmental Compatibility and Public Need. If we are awarded the project, construction of the facility is anticipated to begin in late 2016, with power generation commencing in phases. The project can be fully constructed and operational by the end of 2019. This project represents a product and service revenue potential to the Company of over \$500 million with product revenue expected to be recognized under percentage-of-completion accounting if awarded. Timing of definitive contracts are subject to finalization of any award under RFP and final agreement with the developers, and there can be no assurance regarding either occurring.

North America and Europe - The Company has a significant sales and service pipeline of potential projects in various stages of bidding or development in both North America and Europe. The pipeline is comprised of projects under proposal or development by the Company and does not reflect contracted backlog. This pipeline includes potential projects for on-site 'behind-the-meter' applications and for grid support multi-megawatt fuel cell parks. Behind-the-meter applications provide end users with predictable long-term economics, on-site power including micro-grid capabilities, and sustainability benefits from negligible pollutants and reduced carbon emissions. On-site projects being developed are for project sizes ranging from 1.4MW - 14.0 MW for end users such as industrial, healthcare and technology companies as well as municipalities and universities. In addition, a number of multi-megawatt utility grid support projects are being developed for utilities and independent power producers to support the grid where power is needed. Potential utility scale projects in our pipeline range in size from 3.7 MW up to 63 MW. These projects help both utilities and states meet their renewable portfolio standards while enhancing the resiliency of the electric grid. Many of these projects employ the reuse of brownfields. In addition to the Beacon Falls Energy Park project, the Company has been actively pursuing bids in multiple competitive RFPs in the northeast region of the U.S.. Recent bids totaled over 60 MW with award selections expected in the second half of 2016. While the Company does not expect to be awarded all the contracts in its pipeline, and can provide no assurances of the extent of what awards it will finally realize, the Company's potential project pipeline in the U.S. and Europe totals in excess of \$2 billion in revenues. Service is additive to this total.

Asia; In May 2016, POSCO Energy announced the commencement of construction of a 20 megawatt fuel cell park in Seoul, South Korea. Fuel cells are well suited for meeting South Korea's demand for clean power as they are easy-to-site in high density urban locations, using minimal land, generally avoiding the need for clean air permitting due to their ultra-clean emission profile, and the continuous power profile maximizes the power output generating substantial renewable energy credits that are utilized by electricity suppliers. POSCO Energy, the South Korean

partner of FuelCell Energy has constructed and operates more than 20 sites in South Korea in excess of 150 megawatts. Fuel cell parks are constructed in short time frames of a year or less and this facility is expected to be fully operational by the end of 2016, or an expected 9-10 month construction period. The fuel cell power plants are located in an urban park, utilizing only about 1.7 acres of land to cleanly generate power for approximately 43,000 Korean households and heat for approximately 9,000 households. The suitability of fuel cells for the Asian market is illustrated in a sizeable project pipeline in excess of 400 megawatts in South Korea alone. This pipeline represents prospective projects that have advanced beyond a series of stages including preliminary confirmation of project site control, supportive economics, and identification of a potential customer or customers for the energy. POSCO Energy operates a manufacturing campus in Pohang, South Korea that manufactures the entire fuel cell plant locally, under license from FuelCell Energy. The two partners have worked together closely to optimize the production line lay-out, incorporate material handling automation, and foster a culture of continuous improvement. As POSCO Energy grows production volume, we expect that increased levels of purchasing from the integrated global supply chain, whether by POSCO Energy or the Company, will benefit both parties by obtaining lower pricing tiers from suppliers from greater combined purchasing volume. Also, under our license agreements, the Company receives a 3.0% royalty on POSCO Energy net product sales as well as a royalty on each scheduled fuel cell module replacement under service agreements for modules that were built by POSCO Energy.

#### U.S. Investment Tax Credit

In the United States, the federal government provides an investment tax credit (ITC) that allows a taxpayer to claim a credit of 30% of qualified expenditures (up to a tax credit limit of \$3,000/kW) for eligible power generation technologies, including fuel cell power plants, that are placed in service on or before December 31, 2016. In December 2015, the United States Congress extended the ITC for 5 years, beginning on January 1, 2017, and phased down to 26% in 2020 and 22% in 2021. The intention, as publicly stated by Congressional leaders, was to extend the ITC to all eligible technologies; however, the actual approved language only extended the ITC for solar energy technologies (i.e. so called Section 48 technologies were inadvertently omitted, which includes fuel cells as well as a variety of other forms of clean power generation). Senior Congressional leadership, as stated in the Congressional Record on and in the media, acknowledged a drafting error with the legislation and a commitment to correct this oversight. The expectation is that a bill will be introduced for vote to include all eligible technologies in the ITC extension, including fuel cells. While the Company expects this outcome based upon its activities and public statements on the topic, there can be no assurance regarding the timing or the ultimate passage of a bill to extend the ITC. Projects currently under construction by the Company have commercial operation dates in late summer or fall of 2016 and are not dependent on an ITC extension to support the project economics.

Management continues to focus on cost reductions and enhancing the value proposition of our fuel cell solutions in the event that the ITC is not extended. This includes continued focus on manufacturing efficiencies, per unit material and component cost reductions from volume, and optimizing the supply chain, as well as introducing fuel cell power plant configurations and technology that increase the electrical efficiency and extends the expected life of the fuel cell stacks.

#### Fiscal 2016 Production and Revenue Forecast

The Company establishes the production run-rate for its Torrington, Connecticut manufacturing facility based on product backlog, anticipated module exchanges under service agreements, high probability pipeline and timing of customer requirements. The Company maintains an inventory of work-in process and finished goods in order to be able to quote and respond to delivery times in generally twelve months or less. In the first half of 2016, the factory run-rate totaled approximately 64 megawatts on an annualized basis. In the second half of 2016, we expect to adjust the run-rate to 50 megawatts on an annualized basis given the current timing expectation of new product deliveries. As order volume dictates, we will make further adjustments. As reported in the past, kit production to the Company's Asian partner POSCO Energy will conclude in the fourth quarter of 2016 as POSCO Energy ramps up production in South Korea. We expect to replace this volume with higher margin turn-key project production from the U.S. and Europe.

Timing of revenue recognition may not be linear to production as the Company retains projects being built on power purchase agreements ("PPA") which are to be financed on the balance sheet until the commercial operation date in "Project assets". Based on our current backlog, production level, expected revenue recognition of inventory and project assets, timing of customer requirements and expected orders, the Company currently estimates that full fiscal 2016 revenue will be in the range of \$140 - \$170 million. This revenue range does not include the expected full utilization in fiscal 2016 of the \$30.0 million financing facility extended by PNC Energy Capital for PPA's retained on balance sheet by the Company.

## RESULTS OF OPERATIONS

Management evaluates the results of operations and cash flows using a variety of key performance indicators including revenues compared to prior periods and internal forecasts, costs of our products and results of our “cost-out” initiatives, and operating cash use. These are discussed throughout the ‘Results of Operations’ and ‘Liquidity and Capital Resources’ sections.

Comparison of Three Months Ended April 30, 2016 and 2015

Revenues and Costs of revenues

Our revenues and cost of revenues for the three months ended April 30, 2016 and 2015 were as follows:

|                         | Three Months Ended<br>April 30, |          | Change    |       |
|-------------------------|---------------------------------|----------|-----------|-------|
| (dollars in thousands)  | 2016                            | 2015     | \$        | %     |
| Total revenues          | \$28,581                        | \$28,600 | \$(19 )   | —     |
| Total costs of revenues | \$28,738                        | \$26,577 | \$2,161   | 8     |
| Gross (loss) profit     | \$(157 )                        | \$2,023  | \$(2,180) | (108) |

Gross margin percentage (0.5 )% 7.1 %

Total revenues for the three months ended April 30, 2016 of \$28.6 million which is comparable to the same period last year. Total cost of revenues for the three months ended April 30, 2016 increased by \$2.2 million to \$28.7 million from \$26.6 million during the same period last year. A discussion of the changes in product sales and cost of sales, service and license revenues and cost of revenues and advanced technologies contract revenues and cost of revenues follows. Product sales

Our product sales, cost of sales and gross profit for three months ended April 30, 2016 and 2015 were as follows:

|                                 | Three Months Ended<br>April 30, |          | Change    |      |
|---------------------------------|---------------------------------|----------|-----------|------|
| (dollars in thousands)          | 2016                            | 2015     | \$        | %    |
| Product sales                   | \$15,424                        | \$20,221 | \$(4,797) | (24) |
| Cost of product sales           | 15,118                          | 18,111   | (2,993 )  | (17) |
| Gross profit from product sales | \$306                           | \$2,110  | \$(1,804) | (85) |
| Product sales gross margin      | 2.0 %                           | 10.4 %   |           |      |

Product sales for the three months ended April 30, 2016 included \$0.6 million of power plant revenue, \$11.9 million of fuel cell module kits revenue, \$2.3 million of revenue related to engineering and construction services and \$0.6 million of revenue primarily related to power plant component sales. This is compared to product sales for the three months ended April 30, 2015 which included \$0.9 million of power plant revenue, \$14.1 million of fuel cell kits and module revenue, \$3.6 million of revenue related to engineering and construction services and \$1.6 million of revenue primarily from power plant component sales. The decline in revenue during the period is due to decreased Asian module and component sales as well as a decrease in engineering and construction services.

Cost of product sales decreased \$3.0 million for the three months ended April 30, 2016 to \$15.1 million, compared to \$18.1 million in the same prior year period. Gross profit decreased \$1.8 million to a gross profit of \$0.3 million for the three months ended

April 30, 2016 compared to a gross profit of \$2.1 million for the three months ended April 30, 2015. The year-over-year decrease in gross margin reflects sales mix and higher costs for engineering and construction services. As the Company's development business expands, it is installing power plants for customers that have executed power purchase agreements. The power plants are recognized as Project assets on the balance sheet and revenue will be recognized as earned over the life of the power purchase agreement or when a definitive sales agreement is executed. Service agreements and license revenues

| (dollars in thousands)                                           | Three Months Ended<br>April 30, |         | Change   |       |
|------------------------------------------------------------------|---------------------------------|---------|----------|-------|
|                                                                  | 2016                            | 2015    | \$       | %     |
| Service agreements and license revenues                          | \$10,573                        | \$4,618 | \$5,955  | 129   |
| Cost of service agreements and license revenues                  | 10,988                          | 4,433   | 6,555    | 148   |
| Gross (loss) profit from service agreements and license revenues | \$(415 )                        | \$185   | \$(600 ) | (324) |
| Service agreement and license revenues gross margin              | (3.9 )%                         | 4.0 %   |          |       |

Revenues for the three months ended April 30, 2016 from service agreements and license fee and royalty agreements totaled \$10.6 million, compared to \$4.6 million the prior year period. Service agreement revenue increased from the prior year primarily due to module replacements. Revenue from license, royalty and material management fees increased to \$1.6 million for the three month period ended April 30, 2016, compared to \$1.2 million for the comparable prior year period.

Cost of service agreements and license revenues increased to \$11.0 million from \$4.4 million for the prior year period. Cost of service agreements includes maintenance and operating costs, module exchanges, and performance guarantees. The increase over the prior year period relates to the growing installed fleet, module replacement costs, an increase in performance guarantee accruals during the quarter and contract loss accruals related to extending and exiting certain legacy contracts.

Overall gross loss was \$0.4 million for the three months ended April 30, 2016. The overall gross margin percentage of (3.9) percent compares to 4.0 percent in the prior year period. Service margins were negatively impacted from changes to legacy service contracts reflecting continued initiatives to optimize the service business, exit sub megawatt sites and expand future margin potential.

Service revenue from scheduled module exchanges is recognized at the time of the module exchange activity whereas the remaining portion of service revenue from service agreements is recognized ratably over the life of the service contract. As a result, quarterly revenue and gross profit related to module exchanges can fluctuate quarter to quarter. Additional power plant installations will lead to growth in service revenue.

Advanced technologies contract revenues

Advanced technologies contracts revenue and related costs for the three months ended April 30, 2016 and 2015 were as follows:

| (dollars in thousands)                          | Three Months Ended<br>April 30, |          | Change    |      |
|-------------------------------------------------|---------------------------------|----------|-----------|------|
|                                                 | 2016                            | 2015     | \$        | %    |
| Advanced technologies contract revenues         | \$2,584                         | \$3,761  | \$(1,177) | (31) |
| Cost of advanced technologies contract revenues | 2,632                           | 4,033    | (1,401 )  | (35) |
| Gross loss                                      | \$(48 )                         | \$(272 ) | \$224     | (82) |
| Advanced technologies contracts gross margin    | (1.9 )%                         | (7.2 )%  |           |      |

Advanced technologies contracts revenue for the three months ended April 30, 2016 was \$2.6 million, which decreased \$1.2 million when compared to \$3.8 million of revenue for the three months ended April 30, 2015. Cost of advanced technologies contracts decreased \$1.4 million to \$2.6 million for the three months ended April 30, 2016, compared to \$4.0 million for the same period in the prior year. Advanced technologies contracts for the three months ended April 30, 2016 generated a gross loss of



\$0.05 million compared to a gross loss of \$0.3 million for the three months ended April 30, 2015. The improvement in gross margin is related to timing and mix of contracts currently being performed which include cost share obligations.

Administrative and selling expenses

Administrative and selling expenses were \$7.4 million for the three months ended April 30, 2016 compared to \$6.3 million during the three months ended April 30, 2015 on higher business development costs.

Research and development expenses

Research and development expenses increased to \$5.1 million for the three months ended April 30, 2016 compared to \$4.6 million during the three months ended April 30, 2015 which reflects increased research and development activity related to near term product introductions, including the High Efficiency Fuel Cell (HEFC). The HEFC has an overall electrical efficiency of approximately sixty percent and is designed for utility scale applications. Commercial production is expected to begin in fiscal 2017.

Loss from operations

Loss from operations for the three months ended April 30, 2016 was \$12.7 million compared to \$8.8 million for the three months ended April 30, 2015. The increase in the loss from operations relates to a decrease in gross profit from the prior year period and increases in operating expenses.

Interest expense

Interest expense for the three months ended April 30, 2016 and 2015 was \$1.0 million and \$0.6 million, respectively. Interest expense for both periods includes interest for the amortization of the redeemable preferred stock of subsidiary fair value discount of \$0.5 million.

Other income (expense), net

Other income (expense), net, was expense of \$1.5 million for the three month period ended April 30, 2016 compared to expense of \$0.5 million for the same period in 2015. The expenses for both periods presented represents net foreign exchange losses related primarily to the remeasurement of the preferred stock obligation of our Canadian subsidiary which is payable in Canadian dollars.

Provision for income taxes

We have not paid federal or state income taxes in several years due to our history of net operating losses (NOL), although we have paid foreign income and withholding taxes in South Korea. For the three months ended April 30, 2016 and 2015 our provision for income taxes was \$0.2 million and \$0.1 million, respectively. We manufacture products that are gross margin profitable on a per unit basis; however, we cannot estimate when production volumes will be sufficient to generate taxable domestic income. Accordingly, no tax benefit has been recognized for net operating losses or other deferred tax assets as significant uncertainty exists surrounding the recoverability of these deferred tax assets.

Net loss attributable to noncontrolling interest

The net loss attributed to the noncontrolling interest for the three months ended April 30, 2016 and 2015 was \$0.04 million and \$0.1 million, respectively.

Preferred Stock dividends

Dividends recorded on the Series B Preferred Stock were \$0.8 million for the three month periods ended April 30, 2016 and 2015.

Net loss attributable to common shareholders and loss per common share

Net loss attributable to common shareholders represents the net loss for the period less the net loss attributable to noncontrolling interest and the preferred stock dividends on the Series B Preferred Stock. For the three month periods ended April 30, 2016 and 2015, net loss attributable to common shareholders was \$16.2 million and \$10.7 million, respectively, and loss per common share was \$0.56 and \$0.44, respectively.

## Comparison of Six Months Ended April 30, 2016 and 2015

## Revenues and Costs of revenues

Our revenues and cost of revenues for the six months ended April 30, 2016 and 2015 were as follows:

|                         | Six Months Ended<br>April 30, |          | Change    |       |
|-------------------------|-------------------------------|----------|-----------|-------|
| (dollars in thousands)  | 2016                          | 2015     | \$        | %     |
| Total revenues          | \$62,063                      | \$70,270 | \$(8,207) | (12 ) |
| Total costs of revenues | \$62,386                      | \$64,233 | \$(1,847) | (3 )  |
| Gross (loss) profit     | \$(323 )                      | \$6,037  | \$(6,360) | (105) |

Gross margin percentage (0.5 )% 8.6 %

Total revenues for the six months ended April 30, 2016 of \$62.1 million which decreased \$8.2 million from \$70.3 million for the six months ended April 30, 2015. Total cost of revenues for the three months ended April 30, 2016 decreased by \$1.8 million to \$62.4 million from \$64.2 million during the same period last year. A discussion of the changes in product sales and cost of sales, service and license revenues and cost of revenues and advanced technologies contract revenues and cost of revenues follows.

## Product sales

Our product sales, cost of sales and gross profit for six months ended April 30, 2016 and 2015 were as follows:

|                                 | Six Months Ended<br>April 30, |          | Change     |      |
|---------------------------------|-------------------------------|----------|------------|------|
| (dollars in thousands)          | 2016                          | 2015     | \$         | %    |
| Product sales                   | \$40,497                      | \$53,639 | \$(13,142) | (25) |
| Cost of product sales           | 39,507                        | 48,459   | (8,952 )   | (18) |
| Gross profit from product sales | \$990                         | \$5,180  | \$(4,190 ) | (81) |
| Product sales gross margin      | 2.4 %                         | 9.7 %    |            |      |

Product sales for the six months ended April 30, 2016 included \$10.0 million of power plant revenue, \$23.9 million of fuel cell kits revenue, \$5.2 million of revenue related to engineering and construction services and \$1.4 million of revenue primarily related to power plant component sales. This is compared to product sales for the six months ended April 30, 2015 which included \$9.9 million of power plant revenue, \$32.3 million of fuel cell kits and module revenue, \$8.1 million of revenue related to engineering and construction services and \$3.4 million of revenue primarily from power plant component sales. The decline in revenue during the period is due to decreased Asian module and component sales as well as a decrease in engineering and construction services.

Cost of product sales decreased \$9.0 million for the six months ended April 30, 2016 to \$39.5 million, compared to \$48.5 million in the same prior year period. Gross profit decreased \$4.2 million to a gross profit of \$1.0 million for the six months ended April 30, 2016 compared to a gross profit of \$5.2 million for the six months ended April 30, 2015. The year-over-year decrease in gross margin reflects sales mix and higher costs for engineering and construction services.

## Service agreements and license revenues

| (dollars in thousands)                                           | Six Months Ended<br>April 30, |         | Change    |       |
|------------------------------------------------------------------|-------------------------------|---------|-----------|-------|
|                                                                  | 2016                          | 2015    | \$        | %     |
| Service agreements and license revenues                          | \$16,893                      | \$8,489 | \$8,404   | 99    |
| Cost of service agreements and license revenues                  | 17,839                        | 8,001   | 9,838     | 123   |
| Gross (loss) profit from service agreements and license revenues | \$(946 )                      | \$488   | \$(1,434) | (294) |
| Service agreement and license revenues gross margin              | (5.6 )%                       | 5.7 %   |           |       |

Revenues for the six months ended April 30, 2016 from service agreements and license fee and royalty agreements totaled \$16.9 million, compared to \$8.5 million the prior year period. Service agreement revenue increased from the prior year primarily due to module replacements. Revenue from license, royalty and material management fees increased to \$3.0 million for the three month period ended April 30, 2016, compared to \$1.9 million for the comparable prior year period.

Cost of service agreements and license revenues increased to \$17.8 million from \$8.0 million for the prior year period. Cost of service agreements includes maintenance and operating costs, module exchanges, and performance guarantees. The increase over the prior year period relates to the growing installed fleet, module replacement costs, an increase in performance guarantee accruals during the quarter and contract loss accruals related to extending and exiting certain legacy contracts.

Overall gross loss was \$0.9 million for the six months ended April 30, 2016. The overall gross margin percentage of (5.6) percent compares to 5.7 percent in the prior year period. Service margins were negatively impacted from changes to legacy service contracts reflecting continued initiatives to optimize the service business, exit sub megawatt sites and expand future margin potential.

## Advanced technologies contract revenues

Advanced technologies contracts revenue and related costs for the six months ended April 30, 2016 and 2015 were as follows:

| (dollars in thousands)                          | Six Months Ended<br>April 30, |         | Change    |       |
|-------------------------------------------------|-------------------------------|---------|-----------|-------|
|                                                 | 2016                          | 2015    | \$        | %     |
| Advanced technologies contract revenues         | \$4,673                       | \$8,142 | \$(3,469) | (43 ) |
| Cost of advanced technologies contract revenues | 5,040                         | 7,773   | (2,733 )  | (35 ) |
| Gross (loss) profit                             | \$(367 )                      | \$369   | \$(736 )  | (199) |
| Advanced technologies contracts gross margin    | (7.9 )%                       | 4.5 %   |           |       |

Advanced technologies contracts revenue for the six months ended April 30, 2016 was \$4.7 million, which decreased \$3.4 million when compared to \$8.1 million of revenue for the six months ended April 30, 2015. Cost of advanced technologies contracts decreased \$2.7 million to \$5.1 million for the six months ended April 30, 2016, compared to \$7.8 million for the same period in the prior year. Advanced technologies contracts for the six months ended April 30, 2016 generated a gross loss of \$0.4 million compared to a gross profit of \$0.4 million for the three months ended April 30, 2015. The decrease in gross margin is related to timing and mix of contracts currently being performed which include cost share obligations.

## Administrative and selling expenses

Administrative and selling expenses were \$13.5 million for the six months ended April 30, 2016 compared to \$11.9 million during the six months ended April 30, 2015 on higher business development costs.

Research and development expenses

Research and development expenses increased to \$10.4 million for the six months ended April 30, 2016 compared to \$8.1 million during the six months ended April 30, 2015 which is reflective of increased research and development activity related to near term product introductions, including the High Efficiency Fuel Cell (HEFC).

Loss from operations

Loss from operations for the six months ended April 30, 2016 was \$24.2 million compared to \$13.9 million for the six months ended April 30, 2015. The increase in the loss from operations relates to a decrease in gross profit from the prior year period and increases in operating expenses.

Interest expense

Interest expense for the six months ended April 30, 2016 and 2015 was \$1.8 million and \$1.3 million, respectively. Interest expense for both periods includes interest for the amortization of the redeemable preferred stock of subsidiary fair value discount of \$0.9 million and \$1.0 million, respectively.

Other income (expense), net

Other income (expense), net, was expense of \$0.9 million for the six month period ended April 30, 2016 compared to income of \$1.2 million for the same period in 2015. The current period expense represents net foreign exchange losses of \$0.6 million and the prior period income represent foreign exchange gains of \$0.9 million which relate primarily to the remeasurement of the preferred stock obligation of our Canadian subsidiary which is payable in Canadian dollars.

Provision for income taxes

We have not paid federal or state income taxes in several years due to our history of net operating losses (NOL), although we have paid foreign income and withholding taxes in South Korea. For the six months ended April 30, 2016 and 2015 our provision for income taxes was \$0.3 million and \$0.1 million, respectively. We manufacture products that are gross margin profitable on a per unit basis; however, we cannot estimate when production volumes will be sufficient to generate taxable domestic income. Accordingly, no tax benefit has been recognized for net operating losses or other deferred tax assets as significant uncertainty exists surrounding the recoverability of these deferred tax assets.

Net loss attributable to noncontrolling interest

The net loss attributed to the noncontrolling interest for the six months ended April 30, 2016 and 2015 was \$0.1 million and \$0.2 million, respectively.

Preferred Stock dividends

Dividends recorded on the Series B Preferred Stock were \$1.6 million for the six month periods ended April 30, 2016 and 2015.

Net loss attributable to common shareholders and loss per common share

Net loss attributable to common shareholders represents the net loss for the period less the net loss attributable to noncontrolling interest and the preferred stock dividends on the Series B Preferred Stock. For the three month periods ended April 30, 2016 and 2015, net loss attributable to common shareholders was \$28.7 million and \$15.6 million, respectively, and loss per common share was \$1.04 and \$0.65, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

As of April 30, 2016, we believe that our cash, cash equivalents on hand, cash flows from operating activities, availability under our loan and revolving credit facilities and access to the capital markets will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months.

Cash and cash equivalents and restricted cash totaled \$116.7 million as of October 31, 2016 compared to \$85.7 million as of October 31, 2015. In addition to available cash, the Company has future borrowing availability on its various debt agreements which is subject to certain terms and milestones. The Company also has an effective shelf registration statement on file with the SEC for issuance of debt or equity securities if needed.

During the first half of fiscal 2016, the Company entered into several new debt transactions as follows;

The Company entered into an agreement with PNC Energy Capital, LLC. ("PNC"). Under this agreement, the Company's project finance subsidiaries may enter into up to \$30.0 million of lease agreements for commissioned projects whereby the lease is structured as a sale-leaseback facility for projects where we have entered into a PPA with the end-user of power and site host. On December 23, 2015 the Company closed on its first project with PNC through a sale-leaseback of the UCI Fuel Cell, LLC power plant which initiated commercial operations in December 2015. The Company has \$21.2 million of un-used availability under the PNC Energy Capital tax equity project finance commitment which is subject to meeting certain project milestones including commercial operations.

The Company entered into a long-term definitive Assistance Agreement with the State of Connecticut and received a disbursement of \$10.0 million to be used for the first phase of its planned expansion of the Torrington manufacturing facility. In addition to financing received to date, the Company may receive up to \$10.0 million of tax credits from the State of Connecticut if certain terms and conditions are met. The Company may sell the credits depending on its future tax position. The second phase of our manufacturing expansion, for which we will be eligible to receive an additional \$10.0 million in low-cost financing from the State of Connecticut, will commence as demand supports. This includes adding manufacturing equipment to increase annual capacity from the current 100 megawatts to at least 200 megawatts. The loans received from the State of Connecticut maybe forgiven if the Company achieves certain employment targets.

The Company entered into a loan and security agreement with Hercules Capital, Inc. ("Hercules") and received an initial disbursement of \$15 million in April 2016. This is interest only and such interest only period may be extended for up to an additional year based on achievement of certain milestones. In addition, the Company may draw down an additional \$10.0 million under this agreement upon achievement of certain milestones.

The Company's future liquidity will be dependent on obtaining the order volumes and cost reductions necessary to achieve profitable operations. Increasing annual order volume and reduced product costs are expected to further increase revenues and margins and improve operating cash flows.

The Company has a contract backlog totaling approximately \$410.7 million as of April 30, 2016. This backlog includes approximately \$294.8 million of service agreements, with an average term in excess of 10 years and utility service contracts up to 20 years in duration, providing a committed source of revenue to the year 2036. The Company also has a strong sales and service pipeline of potential projects in various stages of development in both North America and Europe. This pipeline includes projects for on-site 'behind-the-meter' applications and for grid support multi-megawatt fuel cell parks. Behind-the-meter applications provide end users with predictable long-term economics, on-site power including micro-grid capabilities and reduced carbon emissions. On-site projects being developed are for project sizes ranging from 1.4MW - 14.0 MW for end users such as pharmaceuticals companies and

municipalities. In addition, a number of multi-megawatt utility grid support projects are being developed for utilities and independent power producers to support the grid where power is needed. Utility scale projects in our pipeline range in size from 5.6 MW up to 63 MW. These projects help both utilities and states meet their renewable portfolio standards. As project sizes and deployment continues to expand, the business is expected to continue to have significant liquidity requirements in the future. We may use our working capital and access further debt and equity financing to support growth.

The Company produced approximately 34MW during the first half of 2016 at its production facility in Torrington, Connecticut. The production facility has an annual manufacturing capacity of 100 MW under its current configuration. As of April 30, 2016 backlog included approximately 12 MW of fuel cell kits to be delivered to POSCO Energy in 2016, as well as approximately 12 MW of orders for the U.S. and European markets and scheduled module exchanges under service agreements. The Company is

targeting converting approximately 40 to 60 MW of our sales pipeline into incremental backlog in 2016 in order to utilize our available capacity. Production volumes are adjusted as product demand supports.

Factors that may impact our liquidity in 2016 and beyond include;

Our expanding development of large scale turn-key projects in the United States requires liquidity and is expected to continue to have liquidity requirements in the future. Our business model includes the development of turn-key projects and we may commence construction upon the execution of a multi-year power purchase agreement with an end-user that has a strong credit profile. We may choose to substantially complete the construction of projects before they are sold to a project investor. Alternatively, we may choose to retain ownership of one or more of these projects after they become operational if we determine it would be of economic and strategic benefit to do so. If, for example, we cannot sell a project at economics that are attractive to us, we may instead elect to own and operate such projects, generally until such time that we can sell a project on economically attractive terms. In markets where there is a compelling value proposition, we may also build one or more power plants on an uncontracted "merchant" basis in advance of securing long-term power contracts. Delays in construction progress or in completing the sale of our projects which we are self-financing may impact our liquidity. As of April 30, 2016, we had approximately \$50.2 million of available and committed project financing to enable this strategy though we may seek to use our cash balances or other forms of financing as necessary. This includes availability of \$21.2 million under a project finance facility with PNC Energy Capital that is structured as a sale-leaseback facility for projects where we have entered into a PPA with the end-user of power and site host. Under the terms of the sale-leaseback transaction, we make fixed payments to PNC for a period of ten years and have the option of repurchasing the plants at fair market value at the end of the term. This financing facility enables us to generate cash from operating power plants that we choose to retain, effectively monetizing our investment in the power plant. We also have \$29.0 million of availability under our project finance loan agreement with NRG Energy through our subsidiary, FuelCell Energy Finance, LLC. We may seek to expand these facilities, add additional third party debt or equity and deploy working capital as we develop new projects.

As project sizes evolve, project cycle times may increase. We may need to make significant up-front investments of resources in advance of the receipt of any cash from the sale of our projects. These amounts include development costs, interconnection costs, posting of letters of credit or other forms of security, and incurring engineering, permitting, legal, and other expenses.

The amount of accounts receivable as of April 30, 2016 and October 31, 2015 was \$43.7 million and \$60.8 million, respectively. Included in accounts receivable as of April 30, 2016 and October 31, 2015 was \$34.1 million and \$41.0 million, respectively, of unbilled accounts receivable. Unbilled accounts receivable represents revenue that has been recognized in advance of billing the customer under the terms of the underlying contracts. Such costs have been funded with working capital and the unbilled amounts are expected to be billed and collected from customers once we meet the billing criteria under the contracts. At this time, we bill our customers according to the contract terms. Our accounts receivable balances may fluctuate as of any balance sheet date depending on the timing of individual contract milestones and progress on completion of our projects.

The amount of total inventory as of April 30, 2016 and October 31, 2015 was \$66.2 million and \$65.8 million, respectively, which includes work in process inventory totaling \$38.1 million and \$36.7 million, respectively. As we continue to execute on our business plan we must produce fuel cell modules and procure balance of plant components in required volumes to support our planned construction schedules and potential customer contractual requirements. As a result, we may manufacture modules or acquire balance of plant in advance of receiving payment for such activities. This may result in fluctuations of inventory and use of cash as of any balance sheet date.

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Cash and cash equivalents as of April 30, 2016 and October 31, 2015 included \$10.5 million and \$9.6 million, respectively, of cash advanced by POSCO Energy for raw material purchases made on its behalf by FuelCell Energy. Under an inventory procurement agreement that ensures coordinated purchasing from the global supply chain, FuelCell Energy provides procurement services for POSCO Energy and receives compensation for services rendered. While POSCO Energy makes payments to us in advance of supplier requirements, quarterly receipts may not match disbursements.

The amount of total project assets including current and long-term as of April 30, 2016 and October 31, 2015 was \$30.1 million and \$12.2 million, respectively. Project assets consist primarily of capitalized costs for fuel cell projects in various stages of development, whereby we have entered into power purchase agreements prior to entering into a definitive sales or long-term financing agreement for the project, or are a completed project. The current portion of project assets of \$13.4 million as of April 30, 2016 is actively being marketed and intended to be sold although we may choose to retain such projects during initial stages of operations. This balance will fluctuate based on timing of construction and sale of the projects to third parties. The long-term portion of project assets of \$16.7 million represents a fuel cell project which is being accounted for as a financing transaction under a sale-leaseback and two projects that are currently undergoing construction and may be

retained by the Company and funded under a project financing facility. We use both working capital and third party financing to support the development and growth of project assets.

Under the terms of certain contracts, the Company will provide performance security for future contractual obligations. As of April 30, 2016 we have pledged approximately \$34.7 million of our cash and cash equivalents as collateral as performance security and for letters of credit for certain banking requirements and contracts. This balance may increase with a growing backlog and installed fleet. During the first half of 2016, this balance increased by approximately \$8.0 million related to the PNC facility to establish reserves to support our obligations of the power purchase and service agreements. Such reserves will be released over time based on project performance. The balance will vary depending on achievement of certain service milestones. As of April 30, 2016, the short term total was approximately \$9.0 million.

For fiscal year 2016, we forecast capital expenditures in the range of \$13.0 to \$16.0 million. We have commenced the first phase of our project to expand the existing 65,000 square foot manufacturing facility in Torrington, Connecticut by approximately 102,000 square feet for a total size of 167,000 square feet. We expect that construction of the building will be completed in calendar 2017. Initially, this additional space will be used to enhance and streamline logistics functions through consolidation of satellite warehouse locations and will provide the space needed to reconfigure the existing production process to improve manufacturing efficiencies and realize cost savings. On November 9, 2015, the Company closed on a definitive Assistance Agreement with the State of Connecticut and received a disbursement of \$10 million to be used for the first phase. Pursuant to the terms of the loan, payment of principal is deferred for the first four years of this 15 year loan. Interest at a fixed rate of 2% is payable which began December 2015. Up to 50 percent of the principal balance is forgivable if certain job creation and retention targets are met. In conjunction with the expansion, we have entered into a lease modification that extends the term for an additional period of fifteen years from January 1, 2016 through December 31, 2030. The Company will pay a base rent of \$308,750 for the first five years commencing on January 1, 2016. This is a reduction from the prior base rent of \$448,308 payable annually from the period of January 1, 2011 through December 31, 2015. Commencing January 1, 2021, the Company will pay a base rent of \$373,750 and commencing January 1, 2026, the Company will pay a base rent of \$438,750 for the final five years of the fifteen year term.

In addition to cash flows from operations, we may also pursue raising capital through a combination of: (i) sales of equity to public markets or strategic investors, (ii) corporate debt financing, (iii) project level debt and equity financing and (iv) potential local or state Government loans or grants in return for manufacturing job creation and retention. The timing and size of any financing will depend on multiple factors including market conditions, future order flow and the need to adjust production capacity. If we are unable to raise additional capital, our growth potential may be adversely affected and we may have to modify our plans.

#### Cash Flows

Cash and cash equivalents and restricted cash and cash equivalents totaled \$116.7 million as of April 30, 2016 compared to \$85.7 million as of October 31, 2015. As of April 30, 2016, restricted cash and cash equivalents was \$34.7 million, of which \$9.0 million was classified as current and \$25.7 million was classified as non-current, compared to \$26.9 million total restricted cash and cash equivalents as of October 31, 2015, of which \$6.3 million was classified as current and \$20.6 million was classified as non-current.

The following table summarizes our consolidated cash flows:

|                              | Six Months Ended |      |
|------------------------------|------------------|------|
|                              | April 30,        |      |
| (dollars in thousands)       | 2016             | 2015 |
| Consolidated Cash Flow Data: |                  |      |

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|                                                        |            |            |
|--------------------------------------------------------|------------|------------|
| Net cash used in operating activities                  | \$(21,498) | \$(12,308) |
| Net cash used in investing activities                  | (6,997 )   | (3,321 )   |
| Net cash provided by financing activities              | 51,423     | 15,244     |
| Effects on cash from changes in foreign currency rates | 202        | (340 )     |
| Net increase (decrease) in cash and cash equivalents   | \$23,130   | \$(725 )   |

The key components of our cash inflows and outflows were as follows:

Operating Activities – Net cash used in operating activities was \$21.5 million during the six months ended April 30, 2016 compared to \$12.3 million net cash used in operating activities during the first six months ended April 30, 2015. Net cash used in operating activities for the six months ended April 30, 2016 is a result of increases in project assets of \$13.4 million, and a decrease in deferred revenue of \$9.3 million offset by a decrease in accounts receivable of \$17.0 million. Net cash used in operating activities for the six months ended April 30, 2015 is a result of increases in inventory of \$16.0 million, project assets of \$9.2 million and other assets of \$2.9 million offset by a decrease in accounts receivable of \$20.9 million and an increase in deferred revenue of \$9.0 million.

Investing Activities – Net cash used in investing activities was \$7.0 million for the six months ended April 30, 2016 compared to net cash used in investing activities of \$3.3 million during the six months ended April 30, 2015. The net cash used in investing activities for the six months ended April 30, 2016 related to project asset expenditures of \$4.7 million and capital expenditures of \$2.3 million. Net cash used for the first six months of fiscal 2015 related to capital expenditures.

Financing Activities – Net cash provided by financing activities was \$51.4 million during the six months ended April 30 2016 compared to net cash provided by financing activities of \$15.2 million in the prior year period. Net cash provided by financing activities during the six months ended April 30, 2016 related to proceeds from open market sales of common stock of \$26.6 million, receipt of \$15.0 million from the Hercules loan and security agreement, receipt of \$10.0 million related to the definitive Assistance Agreement with the State of Connecticut, net receipts from the NRG Loan Agreement of \$7.2 million and \$6.8 million net proceeds relating to the sale-leaseback transaction with PNC offset by an increase in restricted cash of \$7.8 million, the payoff of the JPMorgan Chase revolving credit facility of \$2.9 million and the payment of preferred dividends and return of capital of \$2.1 million. Net cash provided by financing activities during the six months ended April 30, 2015 related to proceeds from open market sales of common stock of \$16.8 million and a drawdown on the JPMorgan Chase revolving credit facility of \$3.0 million partially offset by an increase in restricted cash of \$2.1 million and the payment of preferred dividends and return of capital of \$2.1 million.

#### Sources and Uses of Cash and Investments

We continue to invest in new product and market development and, as such, we are not currently generating positive cash flow from our operations. Our operations are funded primarily through cash generated from product sales, service contracts and research and development contracts, license fee and royalty income, and sales of equity securities and debt instruments. In order to consistently produce positive cash flow from operations, we need to increase order flow to support higher production levels, leading to lower costs. Please see our Form 10-K for the fiscal year ended October 31, 2015 for further details.

## Commitments and Significant Contractual Obligations

A summary of our significant future commitments and contractual obligations as of April 30, 2016 and the related payments by fiscal year are as follows:

| (dollars in thousands)                                 | Payments Due by Period |                  |             |             |                   |
|--------------------------------------------------------|------------------------|------------------|-------------|-------------|-------------------|
|                                                        | Total                  | Less than 1 Year | 1 – 3 Years | 3 – 5 Years | More than 5 Years |
| Purchase commitments <sup>(1)</sup>                    | \$58,761               | \$57,265         | \$1,455     | \$41        | \$—               |
| Series 1 Preferred obligation <sup>(2)</sup>           | 8,021                  | 996              | 1,991       | 5,034       | —                 |
| Term loans (principal and interest)                    | 53,049                 | 13,629           | 20,587      | 2,164       | 16,669            |
| Capital and operating lease commitments <sup>(3)</sup> | 8,627                  | 1,884            | 2,004       | 770         | 3,969             |
| Sale-leaseback financing obligation <sup>(4)</sup>     | 4,289                  | 679              | 961         | 625         | 2,024             |
| Series B Preferred dividends payable <sup>(5)</sup>    | —                      | —                | —           | —           | —                 |
| Totals                                                 | \$132,747              | \$74,453         | \$26,998    | \$8,634     | \$22,662          |

- (1) Purchase commitments with suppliers for materials, supplies and services incurred in the normal course of business.

The terms of the Class A Cumulative Redeemable Exchangeable Preferred Share Agreement (the “Series 1 Preferred Share Agreement”) require payments of (i) an annual amount of Cdn. \$500,000 for dividends and (ii) an amount of Cdn. \$750,000 as return of capital payments payable in cash. These payments will end on December 31, 2020. Dividends accrue at a 1.25% quarterly rate on the unpaid principal balance, and additional dividends will accrue on the cumulative unpaid dividends at a rate of 1.25% per quarter, compounded quarterly. On December 31,

- (2) 2020 the amount of all accrued and unpaid dividends on the Class A Preferred Shares of Cdn. \$21.1 million and the balance of the principal redemption price of Cdn. \$4.4 million will be due to the holders of the Series 1 preferred shares. The Company has the option of making dividend payments in the form of common stock or cash under terms outlined in the preferred share agreement. For purposes of preparing the above table, the final balance of accrued and unpaid dividends due December 31, 2020 of Cdn. \$21.1 million is assumed to be paid in the form of common stock and not included in this table.

- (3) Future minimum lease payments on capital and operating leases.

The amount represents payments due on the sale-leaseback transaction of the UCI Fuel Cell, LLC entity which was entered into on December 23, 2015. Under the terms of the sale-leaseback, fixed quarterly payments will be made to PNC for a period of 10 years.

- (5) We pay \$3.2 million in annual dividends on our Series B Preferred Stock. The \$3.2 million annual dividend payment has not been included in this table as we cannot reasonably determine the period when or if we will be able to convert the Series B Preferred Stock into shares of our common stock. We may, at our option, convert these shares into the number of shares of our common stock that are issuable at the then prevailing conversion rate if the closing price of our common stock exceeds 150% of the then prevailing conversion price (\$141) for 20 trading days during any consecutive 30 trading day period.

In April 2016, the Company entered into a loan and security agreement with Hercules Capital, Inc. (“Hercules”) which Hercules provided a loan to the Company in an aggregate principal amount of up to \$25.0 million, subject to certain terms and conditions. The Company made an initial term loan advance on the date of closing of \$15.0 million. The Company may make an additional loan advance of \$5.0 million between the later of October 15, 2016 or the date certain milestones are met and December 15, 2016 (“Tranche II”). FCE may also make a loan advance of \$5.0 million beginning on the later of January 1, 2017 or the date certain milestones are met and June 15, 2017 (“Tranche III”). The loan is a 30 month secured facility and the term loan interest is currently 9.5%. During the first year of the loan,

interest only payments are to be made and may be extended for up to 24 months upon the Company achieving certain milestones. Currently, principal and interest payments are to commence on May 1, 2017. The loan balance and all accrued and unpaid interest is due and payable by October 1, 2018. Per the terms of the loan and security agreement, there is an end of term charge of \$1.7 million.

On November 9, 2015, the Company closed on a definitive Assistance Agreement with the State of Connecticut and received a disbursement of \$10.0 million to be used for the first phase of the expansion of our 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. Pursuant to the terms of the loan, payment of principal is deferred for the first four years. Interest at a fixed rate of 2% is payable beginning December 2015. The financing is payable over 15 years, and is predicated on certain terms and conditions, including the forgiveness of up to 50% of

the loan principal if certain job retention and job creation targets are reached. In addition, the Company may receive up to \$10.0 million of non-refundable transferable tax credits if certain terms and conditions are met.

The second phase of our manufacturing expansion, for which we will be eligible to receive an additional \$10.0 million in low-cost financing from the State of Connecticut, will commence as demand supports. This includes adding manufacturing equipment to increase annual capacity from the current 100 megawatts to at least 200 megawatts. Plans for this phase also include the installation of a megawatt scale tri-generation fuel cell plant to power and heat the facility as well as provide hydrogen for the manufacturing process of the fuel cell components, and the creation of an Advanced Technology Center for technology testing and prototype manufacturing. In addition, the final stage of the fuel cell module manufacturing will be relocated to the Torrington facility from its current location at the Danbury, Connecticut headquarters, which will reduce logistics costs. The total cost of both phases of the expansion could be up to \$65.0 million over a five year period.

On July 30, 2014, the Company's subsidiary, FuelCell Energy Finance, LLC ("FuelCell Finance") entered into a Loan Agreement with NRG. Pursuant to the Loan Agreement, NRG has extended a \$40.0 million revolving construction and term financing facility to FuelCell Finance for the purpose of accelerating project development by the Company and its subsidiaries. FuelCell Finance and its subsidiaries may draw on the facility to finance the construction of projects through the commercial operating date of the power plants. FuelCell Finance has the option to continue the financing term for each project after the commercial operating date for a maximum term of five years per project. The interest rate is 8.5% per annum for construction-period financing and 8.0 % thereafter. At April 30, 2016, drawdowns on the facility aggregated \$11.0 million.

On March 5, 2013 the Company closed on a long-term loan agreement with the Connecticut Clean Energy and Finance Investment Authority (CEFIA, now known as the CT Green Bank) totaling \$5.9 million in support of the Bridgeport Fuel Cell Project. The loan agreement carries an interest rate of 5.0% and principal repayments will commence on the eighth anniversary of the project's provisional acceptance date in December 2021. Outstanding amounts are secured by future cash flows from the Bridgeport contracts. The outstanding balance on the CEFIA Note at April 30, 2016 was \$6.1 million.

In April 2008, we entered into a 10-year loan agreement with the Connecticut Development Authority allowing for a maximum amount borrowed of \$4.0 million. As of April 30, 2016, we had an outstanding balance of \$2.7 million on this loan. The interest rate is 5%. Interest only payments commenced in January 2014 and the loan is collateralized by the assets procured under this loan as well as \$4.0 million of additional machinery and equipment. Repayment terms require interest and principal payments through May, 2018.

We have pledged approximately \$34.7 million of our cash and cash equivalents as performance security and for letters of credit for certain banking requirements and contracts. As of April 30, 2016, outstanding letters of credit totaled \$7.4 million. These expire on various dates through April 2019. Under the terms of certain contracts, the Company will provide performance security for future contractual obligations. The restricted cash balance as of April 30, 2016 includes \$15.0 million was placed in a Grantor's Trust account to secure certain FCE obligations under the 15-year service agreement for the Bridgeport Fuel Cell Park Project and is reflected as long-term restricted cash. The restrictions on the \$15.0 million will be removed upon completion of the final module exchange at the Bridgeport Fuel Cell Park Project under the terms of the services agreement. The restricted cash balance as of April 30, 2016 also includes \$9.1 million to support obligations of the power purchase and service agreements related to the PNC sale-leaseback transaction.

As of October 31, 2015, we have uncertain tax positions aggregating \$15.7 million and have reduced our net operating loss carryforwards by this amount. Because of the level of net operating losses and valuation allowances, unrecognized tax benefits, even if not resolved in our favor, would not result in any cash payment or obligation and therefore have not been included in the contractual obligation table above.

In addition to the commitments listed in the table above, we have the following outstanding obligations:

Service and warranty agreements

We warranty our products for a specific period of time against manufacturing or performance defects. Our standard warranty period is generally 15 months after shipment or 12 months after acceptance of the product. We have agreed to warranty kits and components for 21 months from the date of shipment due to the additional shipping and customer manufacture time required. In addition to the standard product warranty, we have contracted with certain customers to provide services to ensure the power plants meet minimum operating levels for terms ranging from up to 20 years. Pricing for service contracts is based upon estimates of future costs, which could be materially different from actual expenses. Refer to the Critical Accounting Policies included in our Annual Report on Form 10-K for the year ended October 31, 2015 for additional details.

#### Advanced technologies contracts

We have contracted with various government agencies and certain companies from private industry to conduct research and development as either a prime contractor or sub-contractor under multi-year, cost-reimbursement and/or cost-share type contracts or cooperative agreements. Cost-share terms require that participating contractors share the total cost of the project based on an agreed upon ratio. In many cases, we are reimbursed only a portion of the costs incurred or to be incurred on the contract. While government research and development contracts may extend for many years, funding is often provided incrementally on a year-by-year basis if contract terms are met and Congress authorizes the funds. As of April 30, 2016, Advanced technologies contracts backlog totaled \$64.9 million, of which \$40.4 million is funded. Should funding be delayed or if business initiatives change, we may choose to devote resources to other activities, including internally funded research and development.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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 costs, 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, 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.

Our critical accounting policies are those that are both most important to our financial condition and results of operations and require the most difficult, subjective or complex judgments on the part of management in their application, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. For a complete description of our critical accounting policies that affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements, refer to our Annual Report on Form 10-K for the year ended October 31, 2015 filed with the Securities and Exchange Commission.

During the six months ended April 30, 2016, the Company has entered into a sale and simultaneous leaseback of a project asset constructed by the Company. The Company reviews whether the project asset is considered integral equipment. The Company does not recognize revenue on a sale-leaseback transaction. Instead, revenue is recognized through the sale of electricity under a power purchase agreement. As of April 30, 2016, the sale-leaseback entered into during the quarter is classified as a finance sale-leaseback. Under a financing sale-leaseback, the Company does not recognize any upfront profit because a sale is not recognized. The full amount of the financing proceeds is recorded as a financing obligation, which is typically secured by the project asset and its future cash flows from electricity sales under a power purchase agreement with a third-party customer.

There have been no other material changes, other than the accounting for the sale-leaseback transaction, in any of our critical accounting policies during the six months ended April 30, 2016.

#### ACCOUNTING GUIDANCE UPDATE

See Note 2, "Recent Accounting Pronouncements," to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for a summary of recent accounting pronouncements.

#### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

##### Interest Rate Exposure

Cash is invested overnight with high credit quality financial institutions and therefore we are not exposed to market risk on our cash holdings from changing interest rates. Based on our overall interest rate exposure as of April 30, 2016, including all interest rate sensitive instruments, a change in interest rates of one percent would not have a material impact on our results of operations.

Foreign Currency Exchange Risk

As of April 30, 2016, approximately 3% of our total cash and cash equivalents was in currencies other than U.S. dollars (primarily the Euro, Canadian dollars and South Korean Won) and we have no plans of repatriation. We make purchases from certain vendors in currencies other than U.S. dollars. Although we have not realized significant foreign exchange rate losses to date, we may in

the future, especially to the extent that we do not engage in currency hedging activities. The economic impact of currency exchange rate movements on our operating results is complex because such changes are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, may cause us to adjust our financing and operating strategies.

#### Derivative Fair Value Exposure

##### Series 1 Preferred Stock

The conversion feature and the variable dividend obligation of our Series 1 Preferred shares are embedded derivatives that require bifurcation from the host contract. The aggregate fair value of these derivatives included within long-term debt and other liabilities as of April 30, 2016 and October 31, 2015 was \$0.7 million. The fair value was based on valuation models using various assumptions including historical stock price volatility, risk-free interest rate and a credit spread based on the yield indexes of technology high yield bonds, foreign exchange volatility as the Series 1 Preferred security is denominated in Canadian dollars, and the closing price of our common stock. Changes in any of these assumptions would change the underlying fair value with a corresponding charge or credit to operations. However, any changes to these assumptions would not be expected to have a material impact on our results of operations.

#### Item 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures, which are designed to provide reasonable assurance that information required to be disclosed in the Company's periodic SEC reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's periodic SEC reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There has been no change in our internal controls over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

We are involved in legal proceedings, claims and litigation arising out of the ordinary conduct of our business. Although we 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 our consolidated financial statements, and no material amounts have been accrued in our consolidated financial statements with respect to these matters.

### Item 1A. RISK FACTORS

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended October 31, 2015.

### Item 6. EXHIBITS

| Exhibit No. | Description                                                                                          |
|-------------|------------------------------------------------------------------------------------------------------|
| 3.9         | Certificate of Amendment of the Certificate of Incorporation of the Registrant, dated April 18, 2016 |
| 31.1        | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 31.2        | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 32.1        | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 32.2        | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 101.INS#    | XBRL Instance Document                                                                               |
| 101.SCH#    | XBRL Schema Document                                                                                 |
| 101.CAL#    | XBRL Calculation Linkbase Document                                                                   |
| 101.LAB#    | XBRL Labels Linkbase Document                                                                        |
| 101.PRE#    | XBRL Presentation Linkbase Document                                                                  |
| 101.DEF#    | XBRL Definition Linkbase Document                                                                    |

The exhibits marked with the section symbol (#) are interactive data files. Pursuant to Rule 406T of Regulation S-T, these interactive data files (i) are not deemed filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, irrespective of any general incorporation language included in any such filings, and otherwise are not subject to liability under these sections; and (ii) are deemed to have complied with Rule 405 of Regulation S-T ("Rule 405") and are not subject to liability under the anti-fraud provisions of the Section 17(a)(1) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934 or under any other liability provision if we have made a good faith attempt to comply with Rule 405 and, after we become aware that the interactive data files fail to comply with Rule 405, we promptly amend the interactive data files.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on June 9, 2016.

FUELCELL ENERGY, INC.

(Registrant)

June 9, 2016 /s/ Michael S. Bishop

Michael S. Bishop

Date

Senior Vice President, Chief Financial Officer,

Treasurer and Corporate Secretary

(Principal Financial Officer and Principal Accounting Officer)

## INDEX OF EXHIBITS

| Exhibit<br>No. | Description                                                                                        |
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| 3.9            | Certificate of Amendment of Certificate of Incorporation of the Registrant, dated April 18, 2016   |
| 31.1           | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2           | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1           | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2           | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS        | XBRL Instance Document                                                                             |
| 101.SCH        | XBRL Schema Document                                                                               |
| 101.CAL        | XBRL Calculation Linkbase Document                                                                 |
| 101.LAB        | XBRL Labels Linkbase Document                                                                      |
| 101.PRE        | XBRL Presentation Linkbase Document                                                                |
| 101.DEF        | XBRL Definition Linkbase Document                                                                  |