FUELCELL ENERGY INC
Form 10-Q
June 07, 2018

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, 2018

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of common stock, par value $0.0001 per share, outstanding as of June 1, 2018: 85,964,710

FUELCELL ENERGY, INC.

FORM 10-Q

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FUELCELL ENERGY, INC.

Consolidated Balance Sheets

(Unaudited)

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

	April 30, 2018	October 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents, unrestricted	$66,973	$49,294
Restricted cash and cash equivalents - short-term	5,249	4,628
Accounts receivable, net	46,189	68,521
Inventories	55,255	74,496
Other current assets	7,938	6,571
Total current assets	181,604	203,510
Restricted cash and cash equivalents - long-term	32,965	33,526
Project assets	79,595	73,001
Property, plant and equipment, net	44,667	43,565
Goodwill	4,075	4,075
Intangible asset	9,592	9,592
Other assets	15,121	16,517
Total assets	$367,619	$383,786
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$10,094	$28,281
Accounts payable	42,813	42,616
Accrued liabilities	14,731	18,381
Deferred revenue	9,424	7,964
Preferred stock obligation of subsidiary	837	836
Total current liabilities	77,899	98,078
Long-term deferred revenue	17,841	18,915
Long-term preferred stock obligation of subsidiary	14,825	14,221
Long-term debt and other liabilities	82,804	63,759
Total liabilities	193,369	194,973
Redeemable Series B preferred stock (liquidation preference of $64,020 as of April 30, 2018 and October 31, 2017)	59,857	59,857
Redeemable Series C preferred stock (liquidation preference of $14,548 and $33,300 as of April 30, 2018 and October 31, 2017, respectively)	12,102	27,700
Total equity:		
Stockholders' equity:		
Common stock ($0.0001 par value); 225,000,000 and 125,000,000 shares	8	7

authorized as of April 30, 2018 and October 31, 2017, respectively;

84,898,762 and 69,492,816 shares issued and outstanding as of April 30, 2018

and October 31, 2017, respectively		
Additional paid-in capital	1,063,501	1,045,197
Accumulated deficit	(960,890)	(943,533)
Accumulated other comprehensive loss	(328)	(415)
Treasury stock, Common, at cost (182,962 and 88,861 shares as of April 30, 2018 and October 31, 2017, respectively)	(447)	(280)
Deferred compensation	447	280
Total stockholders’ equity	102,291	101,256
Total liabilities and stockholders' equity	$367,619	$383,786

See accompanying notes to consolidated financial statements.

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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 April 30,	
	2018	2017
Revenues:		
Product (including $10.9 million and $0.2 million of related party revenues)	$ 12,200	$ 737
Service and license (including $0.6 million and $1.3 million of related party revenues)	3,206	12,592
Generation	1,742	1,634
Advanced Technologies	3,682	5,454
Total revenues	20,830	20,417
Costs of revenues:		
Product	13,947	3,204
Service and license	2,531	12,159
Generation	2,036	1,294
Advanced technologies	2,945	3,377
Total costs of revenues	21,459	20,034
Gross (loss) profit	(629)	383
Operating expenses:		
Administrative and selling expenses	7,085	6,483
Research and development expenses	5,021	5,386
Restructuring expense	—	10
Total costs and expenses	12,106	11,879
Loss from operations	(12,735)	(11,496)
Interest expense	(2,059)	(2,310)
Other income, net	1,620	532
Loss before benefit for income taxes	(13,174)	(13,274)
Benefit for income taxes	—	36
Net loss	(13,174)	(13,238)
Series C preferred stock deemed dividends	(4,199)	—
Series B preferred stock dividends	(800)	(800)
Net loss attributable to common stockholders	$ (18,173)	$ (14,038)
Loss per share basic and diluted:		
Net loss per share attributable to common stockholders	$ (0.23)	$ (0.33)
Basic and diluted weighted average shares outstanding	79,563,265	42,568,818

	Three Months Ended April 30,	
	2018	2017
Net loss	$ (13,174)	$ (13,238)
Other comprehensive loss:		
Foreign currency translation adjustments	54	32

Total comprehensive loss	$(13,120)	$(13,206)

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 April 30,	
	2018	2017
Revenues:		
Product (including $11.4 million and $0.3 million of related party revenues)	$41,730	$2,544
Service and license (including $1.8 million and $2.9 million of related party revenues)	7,310	19,528
Generation	3,634	3,719
Advanced technologies	6,769	11,628
Total revenues	59,443	37,419
Costs of revenues:		
Product	40,084	7,259
Service and license	5,937	18,425
Generation	3,645	2,409
Advanced technologies	5,771	7,130
Total costs of revenues	55,437	35,223
Gross profit	4,006	2,196
Operating expenses:		
Administrative and selling expenses	13,227	12,487
Research and development expenses	9,067	10,778
Restructuring expense	—	1,355
Total costs and expenses	22,294	24,620
Loss from operations	(18,288)	(22,424)
Interest expense	(4,200)	(4,577)
Other income, net	2,096	123
Loss before benefit (provision) for income taxes	(20,392)	(26,878)
Benefit (provision) for income taxes	3,035	(45)
Net loss	(17,357)	(26,923)
Series C preferred stock deemed dividends	(7,662)	—
Series B preferred stock dividends	(1,600)	(1,600)
Net loss attributable to common stockholders	$(26,619)	$(28,523)
Loss per share basic and diluted:		
Net loss per share attributable to common stockholders	$(0.35)	$(0.71)
Basic and diluted weighted average shares outstanding	75,731,565	40,049,948

	Six Months Ended April 30,	
	2018	2017
Net loss	$(17,357)	$(26,923)
Other comprehensive loss:		
Foreign currency translation adjustments	87	(38)

Total comprehensive loss	$(17,270)	$(26,961)

See accompanying notes to consolidated financial statements.

FUELCELL ENERGY, INC.

Consolidated Statements of Cash Flows

(Unaudited)

(Amounts in thousands)

	Six Months Ended April 30, 2018	2017
Cash flows from operating activities:		
Net loss	$(17,357)	$(26,923)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	1,378	2,226
Loss from change in fair value of embedded derivatives	45	25
Depreciation	4,302	4,296
Non-cash interest expense on preferred stock and debt obligations	2,845	2,958
Unrealized foreign exchange gains	(367)	(259)
Deferred income taxes	(3,035)	—
Project asset impairment	485	—
Other non-cash transactions, net	203	241
Decrease (increase) in operating assets:		
Accounts receivable	24,379	(9,020)
Inventories	30,981	(1,779)
Other assets	(1,382)	(366)
Increase (decrease) in operating liabilities:		
Accounts payable	3,290	(4,837)
Accrued liabilities	(4,238)	(5,684)
Deferred revenue	386	547
Net cash provided by (used in) operating activities	41,915	(38,575)
Cash flows from investing activities:		
Capital expenditures	(5,506)	(8,290)
Project asset expenditures	(21,749)	(10,154)
Cash acquired from asset acquisition	—	633
Net cash used in investing activities	(27,255)	(17,811)
Cash flows from financing activities:		
Repayment of debt	(10,919)	(6,299)
Proceeds from debt	13,091	17,891
Payment of deferred financing costs	(352)	(119)
Payment of preferred dividends and return of capital	(2,096)	(2,067)
Cash received for common stock issued for stock plans	—	50
Proceeds from sale of common stock and warrant exercises, net	3,268	12,785
Net cash provided by financing activities	2,992	22,241
Effects on cash from changes in foreign currency rates	87	(38)
Net increase (decrease) in cash, cash equivalents and restricted cash	17,739	(34,183)
Cash, cash equivalents and restricted cash-beginning of period	87,448	118,316
Cash, cash equivalents and restricted cash-end of period	$105,187	$84,133
Supplemental cash flow disclosures:		

Cash interest paid	$1,144	$2,821
Noncash financing and investing activity:		
Common stock issued for Employee Stock Purchase Plan in settlement of prior year accrued employee contributions	—	50
Net noncash reclass of project assets to inventory	11,740	—
Assumption of debt in conjunction with asset acquisition	—	2,289
Acquisition of project assets	—	2,386
Series C preferred share conversions	15,598	—
Accrued purchase of fixed assets, cash paid in subsequent period	273	1,816
Accrued purchase of project assets, cash paid in subsequent period	1,504	115

See accompanying notes to consolidated financial statements.

FUELCELL ENERGY, INC.

Notes to Consolidated Financial Statements

(Unaudited)

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

Note 1. Nature of Business and Basis of Presentation

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

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial information. Accordingly, they do not contain all of the information and footnotes required by accounting principles generally accepted in the United States of America (“GAAP”) for complete financial statements. In the opinion of management, all normal and recurring adjustments necessary to fairly present our financial position and results of operations as of and for the six months ended April 30, 2018 have been included. All intercompany accounts and transactions have been eliminated.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. The balance sheet as of October 31, 2017 has been derived from the audited financial statements at that date, but it does not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with our financial statements and notes thereto for the year ended October 31, 2017, which are contained in our Annual Report on Form 10-K previously filed with the SEC. The results of operations for the interim periods presented are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year.

Use of Estimates

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Estimates are used in accounting for, among other things, revenue recognition, excess 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 Co., Ltd. (“POSCO Energy”) is a related party and owned approximately 3.0% of the outstanding common shares of the Company as of April 30, 2018. Revenues from POSCO Energy for the three months ended April 30, 2018 and 2017 represent approximately 4.0% and 7.0%, respectively, of consolidated revenues and revenues from POSCO Energy for the six months ended April 30, 2018 and 2017 represent approximately 3.0% and 8.0%, respectively, of consolidated revenues.

NRG Energy, Inc. (“NRG”) is a related party and owned approximately 2.0% of the outstanding common shares of the Company as of April 30, 2018. NRG Yield, Inc. (“NRG Yield”) is a dividend growth-oriented company formed by NRG 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, 2018 and 2017 represent approximately 52.0% and 0.3%, respectively, of consolidated revenues and revenues for the six months ended April 30, 2018 and 2017 represent approximately 18.1% and 0.4%, respectively, of consolidated revenues.

FUELCELL ENERGY, INC.

Notes to Consolidated Financial Statements

(Unaudited)

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

Note 2. Recent Accounting Pronouncements

Recent Accounting Guidance Not Yet Effective

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." This ASU 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 were initially effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, 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 to fiscal years, and interim periods within those fiscal years beginning after December 15, 2017 (which, for the Company, will be the first quarter of fiscal year 2019), but allow adoption as of the original effective date. The Company has numerous different revenue sources including the sale and installation of fuel cell power plants, site engineering and construction services, sale of modules and spare parts, extended warranty service agreements, sale of electricity under power purchase agreements, license fees and royalty income from manufacturing and technology transfer agreements and customer-sponsored Advanced Technologies projects. This requires application of various revenue recognition methods under current accounting guidance. Although we anticipate that upon adoption of this new ASU the timing of revenue recognition for certain of our revenue sources might change, we are still evaluating the financial statement impacts of the guidance in this ASU and determining which transition method we will utilize.
In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606)." This ASU provides narrow-scope improvements and practical expedients regarding collectability, presentation of sales tax collected from customers, non-cash consideration, contract modifications at transition, completed contracts at transition and other technical corrections. We have initiated a review of the contracts for our significant revenue streams to understand the impact of the adoption of this ASU.

In February 2016, the FASB issued ASU 2016-02, "Leases" which, for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. This ASU is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (which, for the Company, will be the first quarter of fiscal year 2020). Early adoption is permitted. The Company has both operating and capital leases (refer to Note 17. "Commitments and Contingencies") as well as sale-leasebacks accounted for under the finance method and may have other arrangements that contain embedded leases as characterized in this ASU. We expect that adoption of this ASU will result in the recognition of right-of-use assets and lease liabilities not currently recorded in our consolidated financial statements under existing accounting guidance. However, we are still evaluating all of the Company's contractual arrangements and the impact that adoption of ASU 2016-02 will have on the Company's consolidated financial statements.

Note 3. Accounts Receivable, Net

Accounts receivable as of April 30, 2018 and October 31, 2017 consisted of the following:

	April 30, 2018	October 31, 2017
Commercial Customers:		
Amount billed	$15,621	$41,073
Unbilled recoverable costs [(1)]	22,746	18,162
	38,367	59,235
Advanced Technologies (including U.S. government[(2)]):		
Amount billed	1,980	1,934
Unbilled recoverable costs	5,842	7,352
	7,822	9,286
Accounts receivable, net	$46,189	$68,521

(1) Additional long-term unbilled recoverable costs of $11.2 million and $12.8 million are included within “Other assets” as of April 30, 2018 and October 31, 2017, respectively.

(2) Total U.S. government accounts receivable, including unbilled recoverable cost, outstanding as of April 30, 2018 and October 31, 2017 were $4.5 million and $3.2 million, respectively.

FUELCELL ENERGY, INC.

Notes to Consolidated Financial Statements

(Unaudited)

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

We bill customers for power plant and power plant component 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 Technologies contracts are billed based on actual recoverable costs incurred, typically in the month subsequent to incurring costs. Some Advanced Technologies 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 $0.1 million as of April 30, 2018 and October 31, 2017. Uncollectible accounts receivable are charged against the allowance for doubtful accounts when all collection efforts have failed and it is deemed unlikely that the amount will be recovered.

Accounts receivable from commercial customers (including unbilled recoverable costs) included amounts due from POSCO Energy of $12.2 million and $6.2 million as of April 30, 2018 and October 31, 2017, respectively, and amounts due from NRG and NRG Yield of $0.02 million and $0.1 million as of April 30, 2018 and October 31, 2017, respectively.

Note 4. Inventories

Inventories as of April 30, 2018 and October 31, 2017 consisted of the following:

	April 30, 2018	October 31, 2017
Raw materials	$19,355	$20,065
Work-in-process (1)	35,900	54,431
Inventories	$55,255	$74,496

(1) Work-in-process includes the standard components of inventory used to build the typical modules or module components that are intended to be used in future power plant orders or to service our service agreements. Included in work-in-process as of April 30, 2018 and October 31, 2017 was $29.3 million and $46.3 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, 2018 and October 31, 2017 were $79.6 million and $73.0 million, respectively. Project assets as of April 30, 2018 and October 31, 2017 included five completed, commissioned installations generating power with respect to which we have a power purchase agreement (“PPA”) with the end-user of power and site host with an aggregate value of $31.1 million and $32.1 million as of April 30, 2018 and October 31, 2017, respectively. Certain of these assets are the subject of sale-leaseback arrangements with PNC Energy Capital, LLC (“PNC”), which are recorded under the financing method of accounting for a sale-leaseback. Under the financing method, the Company does not recognize the proceeds received from the lessor as a sale of such assets.

The Project assets balance as of April 30, 2018 and October 31, 2017 also includes assets with an aggregate value of $48.5 million and $40.9 million, respectively, which are being developed and constructed by the Company and have not been placed in service.

On April 5, 2018, the Company sold a project asset to NRG Yield which resulted in the recognition of product revenue of $10.8 million. The total reduction in project assets relating to the sale to NRG Yield was $9.8 million which was recorded as product cost of revenues. The Company also had a $0.5 million impairment of a project asset during the six months ended April 30, 2018 due to the termination of the project. The impairment was recorded as generation cost of revenues.

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

FUELCELL ENERGY, INC.

Notes to Consolidated Financial Statements

(Unaudited)

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

Note 6. Other Current Assets

Other current assets as of April 30, 2018 and October 31, 2017 consisted of the following:

	April 30, 2018	October 31, 2017
Advance payments to vendors (1)	$2,714	$1,035
Deferred finance costs (2)	129	129
Prepaid expenses and other (3)	5,095	5,407
Other current assets	$7,938	$6,571

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

Note 7. Other Assets

Other assets as of April 30, 2018 and October 31, 2017 consisted of the following:

	April 30, 2018	October 31, 2017
Long-term stack residual value (1)	$1,096	$987
Deferred finance costs (2)	32	97
Long-term unbilled recoverable costs (3)	11,153	12,806
Other (4)	2,840	2,627
Other assets	$	