FUELCELL ENERGY INC
Form 10-K/A
September 26, 2003

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**FORM 10-K/A**

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: **October 31, 2002**

**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 Number) |

| | |
|---|---|
| **3 Great Pasture Road** **Danbury, Connecticut** | **06813** |
| (Address of principal executive offices) | (Zip Code) |

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

Securities registered pursuant to Section 12(b) of the Act:
**None**

Securities registered pursuant to Section 12(g) of the Act:
**Common Stock, $.0001 par value per share**
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of 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 T No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

The aggregate market value of voting stock held by non-affiliates of the registrant was approximately $187,789,044 which is based on the closing price of $5.65 on January 22, 2003. On January 22, 2003 there were 39,318,251 shares of common stock of the registrant issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE Certain information contained in the registrant's definitive proxy statement relating to its forthcoming 2003 Annual Meeting of Stockholders to be filed not later than 120 days after the end of registrant's fiscal year ended October 31, 2002 is incorporated by reference in Part III of this Annual Report on Form 10-K.**

***EXPLANATORY NOTE:***

FuelCell Energy, Inc. ("FuelCell" or the "Company") is filing this Annual Report on Form 10-K/A for the fiscal year ended October 31, 2002 in order to revise pro forma information appearing in Note 13 -- "Stock Option Plan," to the Consolidated Financial Statements. The Company's Consolidated Statements of Loss and Cash Flows, and Consolidated Balance Sheets for all periods presented were reported accurately. The revised pro forma information in Note 13 does not affect any previously reported historical operating results of the Company.

No other changes were made to FuelCell's footnotes. No changes were made to FuelCell's Consolidated Statements of Loss and Cash Flows, and Consolidated Balance Sheets.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, the complete text of Item 15 of Form 10-K as revised is presented in this filing. Other than changes to the pro forma information in Note 13, and other than the inclusion of the Section 302 and 906 certifications required by rules of the Commission, no other revisions have been made to this Annual Report on Form 10-K/A from the Form 10-K originally filed with the Commission for the fiscal year ended October 31, 2002. This amendment does not reflect events occurring after the filing of the original annual report on Form 10-K.

***Footnote from Item 15 which is being revised:***

**(13) Stock Option Plan**

The Board has adopted 1988 and 1998 Stock Option Plans (collectively the Plans). Under the terms of the Plans, options to purchase up to 8,706,000 shares of common stock may be granted to our officers, key employees and directors. Pursuant to the Plans, the Board is authorized to grant incentive stock options or nonqualified options and stock appreciation rights to our officers and key employees and may grant nonqualified options and stock appreciation rights to our directors. Stock options and stock appreciation rights have restrictions as to transferability. The option exercise price shall be fixed by the Board but in the case of incentive stock options, shall not be granted at an exercise price less than 100% of the fair market value of the shares subject to the option on the date the option is granted. Stock appreciation rights may be granted in conjunction with options granted under the Plans. Stock options that have been granted are exercisable commencing one year after grant at the rate of 25% of such shares in each succeeding year. There were no stock appreciation rights outstanding at October 31, 2002 and 2001. Costs for fixed awards with pro-rata vesting are recognized on a straight-line basis.

The per share weighted-average fair value of stock options granted in 2002, 2001 and 2000 was $10.24, $17.75 and $5.91, respectively, on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions:

| **Year** | **Dividend rate** | **Risk free Interest rate range** | **Expected life** | **Volatility Factor** |
|---|---|---|---|---|
| 2002 | 0% | 3.22 - 5.28% | 7.5 years | 87.6% |
| 2001 | 0% | 3.85 - 5.76% | 7.5 years | 75.5% |
| 2000 | 0% | 5.79 - 6.80% | 7.7 years | 68.8% |

The following table summarizes the Plan's activity for the years ended October 31, 2002, 2001 and 2000:

| | Number of shares | Weighted average option price |
|---|---|---|
| Outstanding at October 31, 1999 | 3,006,012 | $1.57 |
| Granted | 1,076,006 | $16.82 |
| Exercised | (375,084) | $1.05 |
| Cancelled | (12,000) | $6.60 |
| Outstanding at October 31, 2000 | 3,694,934 | $6.04 |
| Granted | 869,250 | $23.83 |
| Exercised | (354,382) | $3.14 |
| Cancelled | (53,000) | $37.23 |
| Outstanding at October 31, 2001 | 4,156,802 | $9.62 |
| Granted | 1,283,250 | $12.70 |
| Exercised | (213,716) | $1.55 |
| Cancelled | (92,750) | $17.94 |
| Outstanding at October 31, 2002 | 5,133,586 | $10.57 |

The following table summarizes information about stock options outstanding and exercisable at October 31, 2002:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of exercise price | Numbers outstanding | Weighted average remaining contractual life | Weighted average exercise price | Number exercisable | Weighted average exercise price |
| $ 1.00 - 10.00 | 2,563,718 | 5.6 | $ 2.62 | 2,094,718 | $ 1.92 |
| 10.01 - 20.00 | 1,846,618 | 8.6 | 15.10 | 454,930 | 16.68 |
| 20.01 - 30.00 | 659,250 | 8.3 | 26.09 | 174,000 | 25.98 |
| 30.01 - 40.00 | 60,000 | 7.9 | 38.00 | 30,000 | 38.00 |
| 40.01 - 46.00 | 4,000 | 8.0 | 45.97 | 2,000 | 45.97 |
| $ 1.00 - 46.00 | 5,133,586 | 7.1 | $ 10.57 | 2,755,648 | $ 6.30 |

**Employee Stock Purchase Plan**

Our shareholders adopted a Section 423 Stock Purchase Plan (the "ESPP") on April 30, 1993, and the plan was last amended on October 6, 1999. The total shares allocated to the Plan are 900,000. Under the ESPP, our eligible employees have the right to subscribe to purchase shares of common stock at the lesser of 85% of the mean between the high and low market prices on the first day of the purchase period or the last day of the purchase period. An employee may elect to have up to 25% of annual base pay withheld in equal installments throughout the designated payroll-deduction period for the purchase of shares. The value of the employee's subscription may not exceed $25,000 or 1,800 shares in any one calendar year. An employee may not participate in the ESPP if such employee, immediately after the option is granted, owns stock possessing 5% or more of the total combined voting power or value of our capital stock. As of October 31, 2002, there were 499,464 shares of Common Stock reserved for issuance under the ESPP. These shares may be adjusted for any future stock splits. The ESPP will terminate when all shares reserved have been subscribed for and purchased, unless terminated earlier or extended by the Board of Directors. The Compensation Committee of the Board of Directors administers the ESPP. As of October 31, 2002, the number of employees enrolled and participating in the ESPP was 63 and the total number of shares purchased under the ESPP was 400,536. For purposes of the pro-forma calculation, compensation cost is recognized for the fair value of the employee's purchase rights, which was estimated using the Black Scholes option pricing model with the following assumptions for subscription periods beginning in fiscal 2002, 2001 and 2000:

| Year | Dividend Rate | Risk free interest rate | Expected Life | Volatility factor |
|---|---|---|---|---|
| 2002 | 0% | 2.93% | 6 months | 89.2% |
| 2001 | 0% | 6.29% | 6 months | 69.8% |
| 2000 | 0% | 4.77% | 6 months | 62.5% |

The weighted average fair value of those purchase rights granted in 2002, 2001 and 2000 was $8.41, $9.16 and $.79, respectively.

Plan activity for the years ended October 31, 2002, 2001 and 2000, was as follows:

| | Number of Shares |
|---|---|
| Balance at October 31, 1999 | 550,098 |
| Issued @ $7.28 | (17,896) |
| Balance at October 31, 2000 | 532,202 |
| Issued @ $8.57 | (12,904) |
| Issued @ $29.28 | (3,510) |
| Balance at October 31, 2001 | 515,788 |
| Issued @ $13.29 | (6,338) |
| Issued @ $13.47 | (9,986) |
| Balance at October 31, 2002 | 499,464 |

No compensation cost has been recognized for stock options and employee stock purchase rights in the consolidated statements of loss. Had we determined compensation cost based on the fair value at the grant date for the stock options and employee stock purchase rights in the ESPP, our net loss and loss per share would have been the pro forma amounts indicated below:

| | | 2002 | 2001 | 2000 |
|---|---|---|---|---|
| Net loss: | As reported | $ (48,840) | $ (15,438) | $ (4,459) |
| | Pro forma | $ (57,252) | $ (20,836) | $ (6,545) |
| Loss per share: | As reported - Basic & Diluted | $ (1.25) | $ (0.45) | $ (0.16) |
| | Pro forma - Basic & Diluted | $ (1.46) | $ (0.61) | $ (0.23) |

The Company previously reported pro forma net loss of $(51.5) million, $(18.1) million and $(5.6) million in each of the fiscal years ended October 31, 2002, 2001 and 2000, respectively. Also, the Company previously reported pro forma basic and diluted net loss per share of $(1.32) , $(0.61) and $(0.23) in each of the fiscal years ended October 31, 2002, 2001 and 2000, respectively. The Company was using an unaffiliated outside service to determine the pro forma stock option expense for each of the years ended October 31, 2002, 2001 and 2000, using the Black-Scholes model. Based, in part, upon written material provided by this outside service, the Company believed that this outside service provided a consolidated dollar amount of the pro forma stock option expense for each period, including the unamortized portions of the pro forma stock option expense from applicable prior periods, which should have been included in the fiscal 2002, 2001 and 2000 pro forma expense. Instead, the pro forma expense amounts provided by the outside service only related to the portion of the expense for each of these fiscal years, without inclusion of any unamortized portions from the applicable prior periods. This resulted in the pro forma information originally presented in Note 13 to Consolidated Financial Statements to be incorrect. The Company has corrected the pro forma net loss to reflect all unamortized portions of stock option expense which results in an increased pro forma net loss and pro forma basic and diluted loss per share then was previously reported. This disclosure has been amended to reflect the revised calculation.

This footnote pro forma revision has no impact on reported revenue, net loss, cash flow or financial position for the fiscal years ended October 31, 2000, 2001 and 2002.

***Complete text from Item 15:***

**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K**

**(A) (1) <u>FINANCIAL STATEMENTS</u>**

1) Independent Auditors' Report of KPMG LLP (See page F-2, hereof.)

2) Consolidated Balance Sheets as of October 31, 2002 and 2001 (See page F-3 hereof.)

3) Consolidated Statements of Loss for the Years Ended October 31, 2002, 2001, and 2000 (See page F-4, hereof.)

4) Consolidated Statements of Changes in Shareholders' Equity for the Years Ended October 31, 2002, 2001 and 2000 (See page F-5, hereof.)

5) Consolidated Statements of Cash Flows for the Years Ended October 31, 2002, 2001 and 2000 (See page F-6, hereof.)

6) Notes to Consolidated Financial Statements

**(A) (2) <u>FINANCIAL STATEMENT SCHEDULES</u>**

Supplement schedules are not provided because of the absence of conditions under which they are required or because the required information is given in the financial statements or notes thereto.

**(A) (3) EXHIBITS**

**(A) (3) EXHIBITS TO THE 10-K**

| Exhibit No. | Description | Method of Filing |
|---|---|---|
| 2 | Distribution Agreement between the Company and Evercel, dated as of February 16, 1999 (incorporated by reference to exhibit of the same number contained in the Company's 8-K dated February 22, 1999) | |
| 3.1 | Certificate of Incorporation of the Registrant, as amended, July 12, 1999 (incorporated by reference to exhibit of the same number contained in the Company's 8-K dated September 21, 1999) | |
| 3.2 | Restated By-Laws of the Registrant, dated July 13,1999 (incorporated by reference to exhibit of the same number contained in the Company's 8-K dated September 21, 1999) | |
| 4 | Specimen of Common Share Certificate (incorporated by reference to exhibit of the same number contained in the Company's Annual Report on form 10KA for fiscal year ended October 31, 1999) | |
| 10.6 | **License Agreement, dated February 11, 1988, between EPRI and the Company (confidential treatment requested) (incorporated by reference to exhibit of the same number contained in the Company's Registration Statement on Form S-1 (File No. 33-47233) dated April 14, 1992) | |
| 10.21 | *FuelCell Energy, Inc. 1988 Stock Option Plan (incorporated by reference to exhibit of the same number contained in the Company's Amendment No. 1 to its Registration Statement on Form S-1 (File No. 33-47233) dated June 1, 1992) | |
| 10.26 | Addendum to License Agreement, dated as of September 29, 1989, between Messerschmitt-Bölkow-Blohm and the Company (incorporated by reference to exhibit of the same number contained in the Company's Amendment No. 3 to its Registration Statement on Form S-1 (File No. 33-47233) dated June 24, 1992) | |
| 10.27 | Cross-Licensing and Cross-Selling Agreement, as amended December 15, 1999, between the Company and MTU Motoren-Und Turbinen-Union Friedrichshafen GmbH ("MTU") (incorporated by reference to exhibit of the same number contained in the Company's 10-Q for the period ended January 31, 2000). | |
| 10.31 | License Agreement For The Santa Clara Demonstration Project between the Company and the Participants in the Santa Clara Demonstration Project, dated September 16, 1993 (incorporated by reference to exhibit of the same number contained in the Company's 10-KSB for fiscal year ended October 31, 1993, dated January 18, 1994) | |
| 10.32 | Security Agreement for the Santa Clara Demonstration Project, dated September 16, 1993 (incorporated by reference to exhibit of the same number contained in the Company's 10-KSB for fiscal year ended October 31, 1993, dated January 18, 1994) | |
| 10.33 | Guaranty By FuelCell Energy, Inc., dated September 16, 1993 for the Santa Clara Demonstration Project (incorporated by reference to exhibit of the same number contained in the Company's 10-KSB for fiscal year ended October 31, 1993, dated January 18, 1994) | |

| | |
|---|---|
| 10.34 | Guaranty by Fuel Cell Manufacturing Corporation, dated September 16, 1993 for the Santa Clara Demonstration Project (incorporated by reference to exhibit of the same number contained in the Company's 10-KSB for fiscal year ended October 31, 1993, dated January 18, 1994) |

**(A) (3) EXHIBITS TO THE 10-K**

| Exhibit No. | Description | Method of Filing |
|---|---|---|
| 10.36 | *The FuelCell Energy, Inc. Section 423 Stock Purchase Plan (incorporated by reference to exhibit of the same number contained in the Company's 10-KSB for fiscal year ended October 31, 1994 dated January 18, 1995) | |
| 10.39 | **Cooperative Agreement, dated December 20, 1994, between the Company and the United States Department of Energy, Cooperative Agreement #DE-FC21-95MC31184 (confidential treatment requested) (incorporated by reference to exhibit of the same number contained in the Company's 10-KSB for fiscal year ended October 31, 1994 dated January 18, 1995) | |
| 10.40 | Loan and Security Agreement between the Company and MetLife Capital Corporation. (incorporated by reference to exhibit of the same number contained in the Company's 10-KSB for fiscal year ended October 31, 1995 dated January 17, 1996) | |
| 10.41 | *Amendment No. 2 to the FuelCell Energy, Inc. Section 423 Stock Purchase Plan (incorporated by reference to exhibit of the same number contained in the Company's 10-Q for the period ended April 30, 1996 dated June 13, 1996) | |
| 10.42 | *Amendments to the FuelCell Energy, Inc. 1988 Stock Option Plan (incorporated by reference to exhibit of the same number contained in the Company's 10-Q for the period ended April 30, 1996 dated June 13, 1996) | |
| 10.43 | Loan Agreements with First Union Bank of Connecticut, dated June 28, 1996 (incorporated by reference to exhibit of the same number contained in the Company's 10-Q for the period ended July 31, 1996 dated September 12, 1996) | |
| 10.44 | Notes in favor of First Union Bank of Connecticut, dated June 28, 1996 (incorporated by reference to exhibit of the same number contained in the Company's 10-Q for the period ended July 31, 1996 dated September 12, 1996) | |
| 10.45 | Security Agreements with First Union Bank of Connecticut, dated June 28, 1996 (incorporated by reference to exhibit of the same number contained in the Company's 10-Q for the period ended July 31, 1996 dated September 12, 1996) | |
| 10.47 | Amendment of Cooperative Agreement dated September 5, 1996 between the Company and the United States Department of Energy, Cooperative Agreement #DE-FC21-95MC31184 (incorporated by reference to exhibit of the same number contained in the Company's 10-K for the fiscal year ended October 31, 1998) | |
| 10.48 | *Employment Agreement between FuelCell Energy, Inc. and the Chief Financial Officer, Treasurer and Secretary, dated October 5, 1998 (incorporated by reference to exhibit of the same number contained in the Company's 10-K for the fiscal year ended October 31, 1998) | |
| 10.49 | | |

| | |
|---|---|
| | *Employment Agreement between FuelCell Energy, Inc. and the President and Chief Executive Officer, dated August 1, 1997 (incorporated by reference to exhibit of the same number contained in the Company's 10-K for the fiscal year ended October 31, 1997) |
| 10.50 | Technology Transfer and License Agreement between the Company and the Joint Venture owned jointly by the Xiamen Daily-Used Chemicals Co., Ltd. of China and Nan Ya Plastics Corporation of Taiwan, dated February 21, 1998 (incorporated by reference to exhibit of the same number contained in the Company's 10-Q for the period ended April 30, 1998)**. |

**(A) (3) EXHIBITS TO THE 10-K**

| Exhibit No. | Description | Method of Filing |
|---|---|---|
| 10.51 | Technology Transfer and License Contract, dated May 29, 1998 for Ni-Zn Battery Technology among Xiamen ERC Battery Corp., Ltd., and Xiamen Daily-Used Chemicals Co., Ltd. And the Company (incorporated by reference to exhibit of the same number contained in the Company's 10-Q for the period ended July 31, 1998)**. | |
| 10.52 | Cooperative Joint Venture Contract, dated as of July 7, 1998, between Xiamen Three Circles Co., Ltd. And the Company for the establishment of Xiamen Three Circles-ERC Battery Corp., Ltd., a Sino Foreign Manufacturing Joint Venture (incorporated by reference to exhibit of the same number contained in the Company's 10-Q for the period ended July 31, 1998)**. | |
| 10.53 | Amendment to the FuelCell Energy, Inc. 1988 Stock Option Plan, as amended (incorporated by reference to exhibit of the same number contained in the Company's 10-Q for the period ended July 31, 1998). | |
| 10.54 | The FuelCell Energy, Inc. 1998 Equity Incentive Plan (incorporated by reference to exhibit of the same number contained in the Company's 10-Q for the period ended July 31, 1998). | |
| 10.55 | Lease agreement dated March 8, 2000 between the Company and Technology Park Associates, L.L.C. (incorporated by reference to exhibit of the same number contained in the Company's 10-Q for the period ended April 30, 2000). | |
| 10.56 | Security agreement dated June 30, 2000 between the Company and the Connecticut Development Authority (incorporated by reference to exhibit of the same number contained in the Company's 10-Q for the period ended July 31, 2000). | |
| 10.57 | Loan agreement dated June 30, 2000 between the Company and the Connecticut Development Authority (incorporated by reference to exhibit of the same number contained in the Company's 10-Q for the period ended July 31, 2000). | |
| 10.58 | *Modification, dated June 20, 2002, to the Employment Agreement between FuelCell Energy, Inc. and the President and Chief Executive Officer (incorporated by reference to exhibit of the same number contained in the Company's 10-Q for the period ended July 31, 2002). | |
| 21 | Subsidiaries of the Company (incorporated by reference to exhibit of the same number contained in the Company's Registration Statement on Form S-1, (File No. 33-47233) dated April 14, 1992) | |
| 23.1 | Consent of KPMG LLP | |
| 31.1 | Certification of Chief Executive Officer, as required by Section 302 of the Sarbanes Oxley Act of 2002 | |
| 31.2 | Certification of Chief Financial Officer, as required by Section 302 of the Sarbanes Oxley Act of 2002 | |
| 32.1 | | |

| | |
|---|---|
| | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

* Management Contract or Compensatory Plan or Arrangement
**Confidential Treatment has been granted for portions of this document

(b) The following Current Reports on Form 8-K were filed by the Registrant during the last quarter of the fiscal year 2002.

None

**Table of Contents**

**Independent Auditors' Report**

The Board of Directors of
FuelCell Energy, Inc.:

We have audited the accompanying consolidated balance sheets of FuelCell Energy, Inc. and subsidiary as of October 31, 2002 and 2001, and the related consolidated statements of loss, changes in shareholders' equity and cash flows for each of the years in the three-year period ended October 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FuelCell Energy, Inc. as of October 31, 2002 and 2001, and the results of their operations and their cash flows for the each of the years in the three-year period ended October 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Hartford, CT
December 9, 2002

**FUELCELL ENERGY, INC.**

Consolidated Balance Sheets
October 31, 2002 and 2001
(Dollars in thousands, except per share amounts)

| | | 2002 | | 2001 |
|---|---|---|---|---|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ | 102,495 | $ | 256,870 |
| Investments: U.S. Treasury securities | | 103,501 | | 17,890 |
| Accounts receivable, net | | 10,438 | | 7,110 |
| Inventories | | 13,981 | | 6,334 |
| Deferred income taxes | | - | | 25 |
| Other current assets | | 4,324 | | 996 |
| Total current assets | | 234,739 | | 289,225 |
| Property, plant and equipment, net | | 38,710 | | 27,188 |
| Investments: U.S. Treasury securities | | 14,587 | | 15,773 |
| Deferred income taxes | | - | | 266 |
| Other assets, net | | 1,767 | | 1,568 |
| Total assets | $ | 289,803 | $ | 334,020 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Current portion of long-term debt | $ | 285 | $ | 175 |
| Accounts payable | | 4,712 | | 4,679 |
| Accrued liabilities | | 7,904 | | 6,763 |
| Deferred license fee income | | 38 | | 37 |
| Customer advances | | 3,466 | | 1,398 |
| Total current liabilities | | 16,405 | | 13,052 |
| Long-term debt | | 1,696 | | 1,252 |
| Total liabilities | | 18,101 | | 14,304 |
| Commitments and contingencies | | - | | - |
| Shareholders' equity: | | | | |
| Common stock ($.0001 par value); 150,000,000 shares authorized at October 31, 2002 and October 31, 2001 respectively: 39,228,828 and 38,998,788 shares issued and outstanding at October 31, 2002 and October 31, 2001, respectively | | 4 | | 4 |
| Additional paid-in capital | | 339,762 | | 338,936 |
| Accumulated deficit | | (68,064) | | (19,224) |
| Total shareholders' equity | | 271,702 | | 319,716 |
| Total liabilities and shareholders' equity | $ | 289,803 | $ | 334,020 |

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**FUELCELL ENERGY, INC.**
Consolidated Statements of Loss
October 31, 2002, 2001 and 2000
(Dollars in thousands, except per share amounts)

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Revenues: | | | |
| Research and development contracts | $ 33,575 | $ 20,882 | $ 17,986 |
| Product sales and revenue | 7,656 | 5,297 | 2,729 |
| Total revenues | 41,231 | 26,179 | 20,715 |
| | | | |
| Costs and expenses: | | | |
| Cost of research and development contracts | 45,664 | 19,033 | 12,508 |
| Cost of product sales and revenues | 32,129 | 16,214 | 4,968 |
| Administrative and selling expenses | 10,451 | 9,100 | 8,055 |
| Research and development costs | 6,806 | 3,108 | 1,917 |
| Total costs and expenses | 95,050 | 47,455 | 27,448 |
| Loss from operations | (53,819) | (21,276) | (6,733) |
| License fee income, net | 270 | 270 | 266 |
| Interest expense | (160) | (116) | (141) |
| Interest and other income, net | 4,876 | 5,684 | 2,138 |
| Loss before provision for Income taxes | (48,833) | (15,438) | (4,470) |
| Provision for income taxes | 7 | - | - |
| Minority interest | - | - | 11 |
| Net loss | $ (48,840) | $ (15,438) | $ (4,459) |
| Loss per share: | | | |
| Basic and diluted loss per share | $ (1.25) | $ (0.45) | $ (0.16) |
| Basic and diluted shares outstanding | 39,135,256 | 34,359,320 | 28,297,594 |

**FUELCELL ENERGY, INC.**

Statements of Changes in Shareholders' Equity
October 31, 2002, 2001, and 2000
(Dollars in thousands, except per share amounts)

| | Shares Of Common Stock | Common Stock | Additional Paid-In Capital | Retained Earnings (Deficit) | Total Shareholders' Equity |
|---|---|---|---|---|---|
| Balance at October 31, 1999 | 25,303,488 | $ 2 | $ 14,140 | $ 673 | $ 14,815 |
| Compensation for stock options granted | | | 134 | | 134 |
| Issuance of common stock under benefit plans | 17,896 | | 59 | | 59 |
| Issuance of common stock for follow-on offering in April 2000 | 5,200,000 | 1 | 61,099 | | 61,100 |
| Issuance of common stock | 585,796 | | 15,000 | | 15,000 |
| Common stock retired for cashless exercise of options | (20,844) | | (258) | | (258) |
| Stock options exercised | 375,084 | | 394 | | 394 |
| Common stock costs | | | (3,534) | | (3,534) |
| Net loss | | | | (4,459) | (4,459) |
| | | | | | |
| Balance at October 31, 2000 | 31,461,420 | $ 3 | $ 87,034 | $ (3,786) | $ 83,251 |
| Compensation for stock options granted | | | 100 | | 100 |
| Issuance of common stock under benefit plans | 16,414 | | 213 | | 213 |
| Issuance of common stock for follow-on offering in June 2001 | 6,900,000 | 1 | 241,500 | | 241,501 |
| | 268,114 | | 10,000 | | 10,000 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Issuance of common stock | | | | | | | | | |
| Stock options exercised | 354,382 | | | | 1,110 | | | | 1,110 |
| Common stock retired for cashless exercise of options | (1,542) | | | | (60) | | | | (60) |
| Common stock and equity investment costs | | | | | (708) | | | | (708) |
| Deconsolidation of Xiamen Joint Venture | | | | | (253) | | | | (253) |
| Net loss | | | | | | | (15,438) | | (15,438) |
| | | | | | | | | | |
| Balance at October 31, 2001 | 38,998,788 | $ | 4 | $ | 338,936 | $ | (19,224) | $ | 319,716 |
| Issuance of common stock under benefit plans | 16,324 | | | | 219 | | | | 219 |
| Stock options exercised | 213,716 | | | | 307 | | | | 307 |
| Common stock and equity investment costs | | | | | 300 | | | | 300 |
| Net loss | | | | | | | (48,840) | | (48,840) |
| | | | | | | | | | |
| Balance at October 31, 2002 | 39,228,828 | $ | 4 | $ | 339,762 | $ | (68,064) | $ | 271,702 |

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**FUELCELL ENERGY, INC.**
Consolidated Statements of Cash Flows
October 31, 2002, 2001 and 2000
(Dollars in thousands, except per share amounts)

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net loss | $ (48,840) | $ (15,438) | $ (4,459) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Compensation for options granted | - | 100 | 134 |
| Depreciation and amortization | 3,420 | 2,034 | 1,880 |
| Amortization of treasury note premium | 363 | - | - |
| Deferred income taxes | 291 | - | - |
| (Gain) loss on disposal of property | 63 | (4) | 82 |
| Minority interest | - | - | (11) |
| (Increase) decrease in operating assets: | | | |
| Accounts receivable | (3,328) | (3,651) | (1,127) |
| Inventories | (7,647) | (6,029) | 899 |
| Other current assets | (3,159) | (400) | (191) |
| Increase (decrease) in operating liabilities: | | | |
| Accounts payable | 33 | 3,053 | 1,142 |
| Accrued liabilities | 1,141 | 3,216 | 1,770 |
| Customer advances | 2,068 | 656 | 192 |
| Deferred license fee income and other | 1 | 48 | 9 |
| Net cash (used in) provided by operating activities | (55,594) | (16,415) | 320 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (15,373) | (19,094) | (4,155) |
| Treasury notes matured | 82,500 | - | - |
| Treasury notes purchased | (167,288) | (33,663) | - |
| Payments on other assets | - | - | 6 |
| Net cash used in investing activities | (100,161) | (52,757) | (4,149) |
| Cash flows from financing activities: | | | |
| Long term debt borrowings | 787 | 1,427 | - |
| Repayment on long-term debt | (233) | (1,625) | (341) |
| Sales of common stock | - | 251,501 | 76,100 |
| Deconsolidation of Xiamen Joint Venture | - | (570) | - |
| Common stock and equity investment costs | 300 | (708) | (3,534) |
| Common stock issued for Option and Stock Purchase Plans | 526 | 1,263 | 195 |
| Net cash provided by financing activities | 1,380 | 251,288 | 72,420 |
| Net (decrease) increase in cash and cash equivalents | (154,375) | 182,116 | 68,591 |
| Cash and cash equivalents-beginning of year | 256,870 | 74,754 | 6,163 |
| Cash and cash equivalents-end of year | $ 102,495 | $ 256,870 | $ 74,754 |
| Cash paid during the period for: | | | |
| Interest | $ 160 | $ 116 | $ 129 |
| Income taxes | 218 | 135 | 210 |

**FUELCELL ENERGY, INC.**
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

**(1) Summary of Significant Accounting Policies**

***Nature of Business***

FuelCell Energy, Inc. is engaged in the development and commercialization of carbonate fuel cell technology for stationary power generation. We manufacture carbonate fuel cells, generally on a contract basis. We are currently in the process of commercializing our Direct FuelCell technology and expect to incur losses as we expand our product development, commercialization program and manufacturing operations.

Our revenue is primarily generated from agencies of the U.S. government and customers located throughout the United States, Europe and Asia. We generally require a down payment with the acceptance of a purchase order with a customer.

***Principles of Consolidation***

The accompanying financial statements as of and for the years ended October 31, 2002 and 2001 include only our accounts. Prior to October 31, 2000, the accounts of our former subsidiary, Xiamen-ERC High Technology Joint Venture, Inc. (the "Joint Venture"), a joint venture formed between the City of Xiamen, Peoples Republic of China, and us, were included. In October of 2000, we transferred 42.17% of our 66.67% ownership to Evercel, Inc. Our remaining 24.5% ownership in the Xiamen joint venture has been accounted for under the equity method since that transfer.

Certain reclassifications have been made to our prior year financial statements to conform to the 2002 presentation.

***Cash and Cash Equivalents***

Cash equivalents consist primarily of investments in money market funds and United States Treasury securities with original maturities averaging three months or less at date of acquisition. We place our temporary cash investments with high credit quality financial institutions.

***Investments***

Investments consist of United States Treasury securities with original maturities of greater than three months at the date of acquisition. The notes are classified as held to maturity since we have the ability and intention to hold them until maturity. The notes are being carried at amortized cost, which is par value, plus or minus unamortized premium or discount. Such notes are classified as current assets when remaining maturities are one year or less, and as non-current assets when remaining maturities are greater than one year.

***Inventories***

Inventories consist principally of raw materials and work-in-process and are stated at the lower of cost or market.

Raw materials consist mainly of various nickel powders and steels, and various other components used in producing cell stacks.

Work-in-process inventory is comprised of material, labor, and overhead costs incurred by us to build fuel cell stacks, which are subcomponents of power generation systems, which have not yet been dedicated to a particular research and development contract, field trial, or commercial customer, (collectively the "end users"), and which are estimated to be fully recovered from the end users. In instances where costs incurred exceed anticipated recovery, those excess costs are charged to cost of product sales and revenues as incurred.

***Property, Plant and Equipment***

Property, plant and equipment are stated at cost, less accumulated depreciation provided on the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized on the straight-line method over the shorter of the estimated useful lives of the assets or the term of the lease.

When property is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations for the period.

***Intellectual Property***

Intellectual property, including internally generated patents and know-how, is carried at no value.

***Impairment of Long Lived Assets***

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, we compare the carrying amount of the assets to future undiscounted net cash flows, excluding interest costs, expected to be generated by the assets and their ultimate disposition. If the sum of the undiscounted cash flows is less than the carrying value, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

***Revenue/License Fee Revenue Recognition***

Revenues and fees on long-term contracts are recognized on a method similar to the percentage-of-completion method. Percentage-of-completion is measured by costs incurred and accrued to date as compared with the estimated total costs for each contract or field trial. Costs are considered research and development in nature as the benefit to be obtained may represent the design, development, manufacture, conditioning and testing of our fuel cell stacks. In many cases, we are reimbursed only a portion of the costs incurred or to be incurred on the contract. As we commercialize our fuel cell technology, costs will relate entirely to the delivery of fuel cell products to customers. At the point that our fuel cells are commercialized, estimated costs to complete an individual contract in excess of revenue will be accrued immediately.

Contracts typically extend over a period of one or more years. In accordance with industry practice, accounts receivable include amounts relating to contracts and programs having production cycles longer than one year and a portion thereof will not be realized within one year. We recognized approximately $7,267, $3,427, and $469, of long-term contract revenues from customers who are also corporate shareholders during fiscal years ended October 31, 2002, 2001 and 2000, respectively.

License fee income arises from an agreement with MTU-Friedrichshafen GmbH ("MTU"), a division of DaimlerChrysler, our European partner, in which we granted MTU an exclusive license to use our Direct FuelCell patent rights and know-how in Europe and the Middle East, and a non-exclusive license in South America and Africa, subject to certain rights of others and us, in each case for a royalty. Amounts received are deferred and recognized ratably over the term of the agreement. We recognized approximately $300, $300, and $292 of license fee income during each of the fiscal years ended October 31, 2002, 2001 and 2000. We have also agreed to sell our Direct FuelCell components and stacks to MTU at cost, plus a modest fee. Revenues recognized for such sales totaled $4,183, $2,179, and $469 for the fiscal years ended October 31, 2002, 2001, and 2000, respectively. This agreement continues through December 2004.

Revenues from the U.S. Government and its agencies directly and through primary contractors were $33,575, $20,837, and $17,961 for the years ended October 31, 2002, 2001 and 2000, respectively.

***Warrant Value Recognition***

Warrants have been issued as sales incentives to certain of our business partners. As we recognize the associated revenue for orders placed in accordance with these sales agreements, a proportional amount of the fair value of the warrants will be recorded against the revenue.

***Research and Development***

Our cost of research and development contracts reflects costs incurred under specific customer-sponsored research and development contracts. These costs consist of both manufacturing and engineering labor, including applicable overhead expenses, materials to build prototype units, materials for testing, and other costs associated with our research and development contracts.

Our research and development expenses reflect costs incurred for internal research and development projects conducted without specific customer-sponsored contracts. These costs consist primarily of labor, overhead, materials to build prototype units, materials for testing, consulting fees and other costs associated with our internal research and development expenses.

***Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded against deferred tax assets if it is unlikely that some or all of the deferred tax assets will be realized.

***Stock Option Plan***

Statement of Financial Accounting Standard ("SFAS") No. 123, "Accounting for Stock-Based Compensation," encourages entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants as if the fair-value-based method defined in SFAS No. 123 had been applied. We apply the recognition provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123, and therefore record no compensation expense in our financial statements.

In accordance with APB No. 25, compensation expense is recorded over the respective service period to the extent that the market price of the underlying stock on the measurement date exceeds the exercise price.

***Earnings Per Share (EPS)***

Basic EPS is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. The computation of diluted EPS is similar to the computation of basic EPS except that it gives effect to all potentially dilutive instruments that were outstanding during the period. In 2002, 2001 and 2000, we computed diluted EPS without consideration to potentially dilutive instruments due to the fact that the losses incurred by us made them antidilutive. All per share data and the number of shares of common stock in this report have been retroactively adjusted to reflect the three-for-two stock dividend, which became effective November 16, 1999, the two-for-one stock dividend, which became effective September 13, 2000, and the two-for-one stock dividend, which became effective June 19, 2001.

***Use of Estimates***

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

***Recent Accounting Pronouncements***

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "*Business Combinations"*, and SFAS No. 142, "*Goodwill and Other Intangible Assets"*. SFAS No. 141 revises the guidance for business combinations and eliminates the pooling method. SFAS No. 142 eliminates the amortization requirement for goodwill and certain other intangible assets and requires that such assets be reviewed periodically for impairment. We adopted SFAS No. 141 upon its issuance with no impact on our financial condition or results of operations. We are required to adopt SFAS No. 142 effective November 1, 2002 and this adoption is not anticipated to have a significant impact on our financial condition, results from operations or cash flows upon adoption.

In August 2001, the FASB issued SFAS No. 143, "*Accounting for Asset Retirement Obligations"*, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, and development and (or) normal use of the asset. We are required to adopt the provisions of SFAS No. 143 effective November 1, 2002. To accomplish this, we must identify all legal obligations for asset retirements, if any, and determine the fair value of these obligations on the date of adoption. The adoption of SFAS No. 143 is not anticipated to have a significant impact on our financial condition, results from operations or cash flows.

In October 2001, the FASB issued SFAS No. 144 "Accounting for Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement also extends the reporting requirements to report separately, as discontinued operations, components of an entity that have either been disposed of or are classified as held-for-sale. We are required to adopt the provisions of SFAS No. 144 effective November 1, 2002. The adoption of SFAS No. 144 is not anticipated to have a significant impact on our financial condition or results from operations or cash flows.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," Under SFAS No. 145, among other things, gains and losses related to the extinguishment of debt should no longer be segregated on the income statement as extraordinary items. Instead, such gains and losses should be included as a component of income from continuing operations. The provisions of SFAS No. 145 are effective for us on November 1, 2002. The adoption of SFAS No. 145 is not anticipated to have a significant impact on our financial position, results of operations or cash flows.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," was issued. This statement nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for the fair value of the costs associated with an exit or disposal activity be recognized when the liability is incurred. The provisions of SFAS No. 146 are effective for exit or disposal activities initiated after December 31, 2002 and thus will become effective for us as of January 1, 2003. The adoption of SFAS No. 146 is currently not expected to have a material impact on our financial position, results of operations or cash flows upon adoption.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45 requires the guarantor to recognize a liability for the non-contingent component of a guarantee; that is, the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee or if the guarantee was issued with a premium payment or as part of a transaction with multiple elements. Interpretation No. 45 also requires additional disclosures related to guarantees. We are required to adopt the disclosure provisions of the Interpretation beginning in the first quarter of fiscal 2003. Additionally, the recognition and measurement provisions of Interpretation No. 45 are effective for all guarantees entered into or modified after December 31, 2002. We are in the process of evaluating the effect of this Interpretation on its financial statements and disclosures.

In December 2001, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 01-6, "Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others". The SOP applies to any entity that lends to or finances the activities of others, and specifies accounting and disclosure requirements for entities that extend trade credit to customers and also provides specific guidance for other types of transactions specific to certain financial institutions. The SOP is effective for the Company beginning November 1, 2002 and we do not believe the recognition and measurement provisions within this SOP will result in a change in practice for its trade receivables or any other activities of the Company. The SOP also provides certain presentation and disclosure changes for entities with trade receivables as part of the objective of requiring consistent accounting and reporting for like transactions, which will be incorporated into the Company's disclosures upon adoption.

**(2) Depreciation**

Depreciation is calculated using the straight-line method. Buildings and improvements are depreciated over periods from 10 to 30 years, machinery and equipment from 3 to 8 years and furniture and fixtures from 6 to 10 years. Depreciation expense was $3,131, $1,693 and $1,473 at October 31, 2002, 2001 and 2000, respectively.

**(3) Investments**

Investments consist of United States Treasury Securities.

***Short-term investments***:

These securities have maturity dates ranging from November 30, 2002 to August 31, 2003, and estimated yields ranging from 3.567% to 5.625%. As of October 31, 2002, the aggregate fair value of these securities was $103,811, the gross unrealized holding gains were $310, and the gross unrealized holding losses were zero. As of October 31 2001, the aggregate fair value of these securities was $17,918, the gross unrealized holding gains were $43, and the gross unrealized holding losses were $15.

***Long-term investments*:**

These securities have maturity dates ranging from December 31, 2003 to April 30, 2004, and estimated yields ranging from 3.000% to 3.375%. As of October 31, 2002, the aggregate fair value of these securities was $14,670, the gross unrealized holding gains were $86 and the gross unrealized holding losses were $3. As of October 31 2001, the aggregate fair value of these securities was $16,010, the gross unrealized holding gains were $237, and the gross unrealized holding losses were zero.

**(4) Inventories**

The components of inventory at October 31, 2002 and October 31, 2001 consisted of the following:

| | | **2002** | **2001** |
|---|---|---|---|
| Raw materials | $ | 10,214$ | 3,519 |
| Work-in-process | | 3,767 | 2,815 |
| Total | $ | 13,981$ | 6,334 |

**(5) Accounts Receivable**

Accounts receivable at October 31, 2002 and 2001 consisted of the following:

| | 2002 | 2001 |
|---|---|---|
| U.S. Government: | | |
| Amount billed | $ 6,151 | $ 2,601 |
| Unbilled recoverable costs | 2,427 | - |
| Retainage | 679 | 239 |
| | 9,257 | 2,840 |
| Commercial Customers: | | |
| Amount billed | 39 | 2,505 |
| Unbilled recoverable costs | 1,141 | 1,764 |
| Retainage | 1 | 1 |
| | 1,181 | 4,270 |
| | $ 10,438 | $ 7,110 |

Retainage represents amounts billed but not paid by customers pursuant to retainage provisions in the contracts that will be due upon completion of the contracts and acceptance by the customer and that may be collected over more than one year.

Unbilled recoverable costs represent amounts of revenue recognized on costs incurred on contracts in progress that will be billed within the next 30 days.

**(6) Other Current Assets, Net**

The components of other current assets at October 31, 2002 and October 31, 2001 consisted of the following:

| | 2002 | 2001 |
|---|---|---|
| Advance payments to vendors | $ 2,902 | $ 362 |
| Prepaid expenses and other | 1,422 | 634 |
| Total | $ 4,324 | $ 996 |

**(7) Property, Plant and Equipment**

Property, plant and equipment at October 31, 2002 and 2001 consisted of the following:

| | 2002 | 2001 | Estimated Useful Life |
|---|---|---|---|
| Land | $ 524 | $ 524 | - |
| Building and improvements | 4,842 | 4,811 | 10-30 years |
| Machinery and equipment | 37,785 | 16,717 | 3-8 years |
| Furniture and fixtures | 1,750 | 1,304 | 6-10 years |
| Construction in progress | 8,110 | 15,300 | |
| | $ 53,011 | $ 38,656 | |
| Less, accumulated depreciation and amortization | (14,301) | (11,468) | |
| Total | $ 38,710 | $ 27,188 | |

**(8) Other Assets**

Other assets at October 31, 2002 and 2001 consisted of the following:

| | 2002 | | 2001 | |
|---|---|---|---|---|
| Power Plant License | $ | 1,087 | $ | 1,370 |
| Other | | 680 | | 198 |
| Total | $ | 1,767 | $ | 1,568 |

The Power Plant License is being amortized over 10 years on a straight-line basis. Accumulated amortization was $1,748 and $1,465 at October 31, 2002 and 2001, respectively.

**(9) Accrued Liabilities**

Accrued liabilities at October 31, 2002 and 2001 consisted of the following:

| | 2002 | | 2001 | |
|---|---|---|---|---|
| Accrued payroll and employee benefits | $ | 3,250 | $ | 2,026 |
| Accrued contract and operating costs | | 4,263 | | 4,080 |
| Accrued taxes and other | | 391 | | 657 |
| Total | $ | 7,904 | $ | 6,763 |

**(10) Long-Term Debt**

Long-term debt at October 31, 2002 and 2001 consisted of the following:

| | 2002 | | 2001 | |
|---|---|---|---|---|
| Note payable | $ | 1,981 | $ | 1,427 |
| Less - current portion | | (285) | | (175) |
| Long-term debt, less current portion | $ | 1,696 | $ | 1,252 |

On June 29, 2000, we entered into a loan agreement, secured by machinery and equipment, and have borrowed an aggregate of $2,214. The loan is payable over seven years, with payments of interest only for the first six months and then repaid in monthly installments over the remaining six and one-half years with interest computed annually based on the ten-year U.S. Treasury note plus 2.5%. Our current interest rates at October 31, 2002 and October 31, 2001 were 7.6% and 7.9%, respectively. Our weighted-average interest rates at October 31, 2002 and October 31, 2001 were 7.8% and 7.9%, respectively.

**(11) Commitments and Contingencies**

We lease certain computer and office equipment, the Torrington, CT manufacturing facility, additional manufacturing space in Danbury, CT, and office space in Pasadena, CA, under operating leases expiring on various dates through 2005. Rent expense was $984, $807, and $611 for the fiscal years ended October 31, 2002, 2001 and 2000, respectively. Aggregate minimum annual payments under the lease agreements for the five years subsequent to October 31, 2002 are: 2003, $791; 2004, $652; 2005, $455; 2006, $502 and 2007, $512.

We have royalty agreements with MTU, Santa Clara, Electric Power Research Institute (EPRI) and LADWP pursuant to which we have agreed to pay royalties based upon certain milestones or events relating to the sale

of carbonate fuel cells. Through October 31, 2002, we have not paid any royalties. In connection with certain contracts and grants from the United States Department of Energy (DOE), we have agreed to pay DOE 10% of the annual license income received from MTU, up to $500 in total. Through 2002, we have paid to the DOE a total of $340.

**(12) Shareholders' Equity**

At October 31, 2002, 6,179,172 shares of common stock have been reserved for issuance pursuant to our stock option plans and our Section 423 Stock Purchase Plan.

We have issued warrants enabling Caterpillar to purchase up to 1,500,000 shares of our common stock, with exercise prices ranging from $17 to $23 per share. The warrants will be earned on a graduated scale contingent upon the first 45 MW of order commitments to purchase our products. For accounting purposes, the fair value of these warrants will be netted against the revenues attributable to the purchase of our products by Caterpillar.

We have issued warrants enabling Marubeni to purchase up to 1,140,000 shares of our common stock, with exercise prices ranging from approximately $37 to $48 per share. The warrants will only be exercisable if Marubeni purchases at least 45 MW of our products by September 2003. For accounting purposes, the fair value of these warrants will be netted against the revenues attributable to the purchase of our products by Marubeni.

In June 2001, Marubeni invested $10 million in FuelCell Energy through the purchase of 268,114 shares of our common stock. In September 2000, PPL EnergyPlus LLC (PPL), an affiliate of PPL Corporation, purchased 425,216 shares of our common stock for $10 million and others purchased 160,580 for $5 million.

**(13) Stock Option Plan**

The Board has adopted 1988 and 1998 Stock Option Plans (collectively the Plans). Under the terms of the Plans, options to purchase up to 8,706,000 shares of common stock may be granted to our officers, key employees and directors. Pursuant to the Plans, the Board is authorized to grant incentive stock options or nonqualified options and stock appreciation rights to our officers and key employees and may grant nonqualified options and stock appreciation rights to our directors. Stock options and stock appreciation rights have restrictions as to transferability. The option exercise price shall be fixed by the Board but in the case of incentive stock options, shall not be granted at an exercise price less than 100% of the fair market value of the shares subject to the option on the date the option is granted. Stock appreciation rights may be granted in conjunction with options granted under the Plans. Stock options that have been granted are exercisable commencing one year after grant at the rate of 25% of such shares in each succeeding year. There were no stock appreciation rights outstanding at October 31, 2002 and 2001. Costs for fixed awards with pro-rata vesting are recognized on a straight-line basis.

The per share weighted-average fair value of stock options granted in 2002, 2001 and 2000 was $10.24, $17.75 and $5.91, respectively, on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions:

| Year | Dividend rate | Risk free Interest rate range | Expected life | Volatility Factor |
|---|---|---|---|---|
| 2002 | 0% | 3.22 - 5.28% | 7.5 years | 87.6% |
| 2001 | 0% | 3.85 - 5.76% | 7.5 years | 75.5% |
| 2000 | 0% | 5.79 - 6.80% | 7.7 years | 68.8% |

The following table summarizes the Plan's activity for the years ended October 31, 2002, 2001 and 2000:

| | Number of shares | Weighted average option price |
|---|---|---|
| Outstanding at October 31, 1999 | 3,006,012 | $1.57 |
| Granted | 1,076,006 | $16.82 |
| Exercised | (375,084) | $1.05 |
| Cancelled | (12,000) | $6.60 |
| Outstanding at October 31, 2000 | 3,694,934 | $6.04 |
| Granted | 869,250 | $23.83 |
| Exercised | (354,382) | $3.14 |
| Cancelled | (53,000) | $37.23 |
| Outstanding at October 31, 2001 | 4,156,802 | $9.62 |
| Granted | 1,283,250 | $12.70 |
| Exercised | (213,716) | $1.55 |
| Cancelled | (92,750) | $17.94 |
| Outstanding at October 31, 2002 | 5,133,586 | $10.57 |

The following table summarizes information about stock options outstanding and exercisable at October 31, 2002:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of exercise price | Numbers outstanding | Weighted average remaining contractual life | Weighted average exercise price | Number exercisable | Weighted average exercise price |
| $ 1.00 - 10.00 | 2,563,718 | 5.6 | $ 2.62 | 2,094,718 | $ 1.92 |
| 10.01 - 20.00 | 1,846,618 | 8.6 | 15.10 | 454,930 | 16.68 |
| 20.01 - 30.00 | 659,250 | 8.3 | 26.09 | 174,000 | 25.98 |
| 30.01 - 40.00 | 60,000 | 7.9 | 38.00 | 30,000 | 38.00 |
| 40.01 - 46.00 | 4,000 | 8.0 | 45.97 | 2,000 | 45.97 |
| $ 1.00 - 46.00 | 5,133,586 | 7.1 | $ 10.57 | 2,755,648 | $ 6.30 |

**Employee Stock Purchase Plan**

Our shareholders adopted a Section 423 Stock Purchase Plan (the "ESPP") on April 30, 1993, and the plan was last amended on October 6, 1999. The total shares allocated to the Plan are 900,000. Under the ESPP, our eligible employees have the right to subscribe to purchase shares of common stock at the lesser of 85% of the mean between the high and low market prices on the first day of the purchase period or the last day of the purchase period. An employee may elect to have up to 25% of annual base pay withheld in equal installments throughout the designated payroll-deduction period for the purchase of shares. The value of the employee's subscription may not exceed $25,000 or 1,800 shares in any one calendar year. An employee may not participate in the ESPP if such employee, immediately after the option is granted, owns stock possessing 5% or more of the total combined voting power or value of our capital stock. As of October 31, 2002, there were 499,464 shares of Common Stock reserved for issuance under the ESPP. These shares may be adjusted for any future stock splits. The ESPP will terminate when all shares reserved have been subscribed for and purchased, unless terminated earlier or extended by the Board of Directors. The Compensation Committee of the Board of Directors administers the ESPP. As of October 31, 2002, the number of employees enrolled and participating in the ESPP was 63 and the total number of shares purchased under the ESPP was 400,536. For purposes of the pro-forma calculation, compensation cost is recognized for the fair value of the employee's purchase rights, which was estimated using the Black Scholes option pricing model with the following assumptions for subscription periods beginning in fiscal 2002, 2001 and 2000:

| Year | Dividend Rate | Risk free interest rate | Expected Life | Volatility factor |
|---|---|---|---|---|
| 2002 | 0% | 2.93% | 6 months | 89.2% |
| 2001 | 0% | 6.29% | 6 months | 69.8% |
| 2000 | 0% | 4.77% | 6 months | 62.5% |

The weighted average fair value of those purchase rights granted in 2002, 2001 and 2000 was $8.41, $9.16 and $.79, respectively.

Plan activity for the years ended October 31, 2002, 2001 and 2000, was as follows:

| | Number of Shares |
|---|---|
| Balance at October 31, 1999 | 550,098 |
| Issued @ $7.28 | (17,896) |
| Balance at October 31, 2000 | 532,202 |
| Issued @ $8.57 | (12,904) |
| Issued @ $29.28 | (3,510) |
| Balance at October 31, 2001 | 515,788 |
| Issued @ $13.29 | (6,338) |
| Issued @ $13.47 | (9,986) |
| Balance at October 31, 2002 | 499,464 |

No compensation cost has been recognized for stock options and employee stock purchase rights in the consolidated statements of loss. Had we determined compensation cost based on the fair value at the grant date for the stock options and employee stock purchase rights in the ESPP, our net loss and loss per share would have been the pro forma amounts indicated below:

| | | 2002 | 2001 | 2000 |
|---|---|---|---|---|
| Net loss: | As reported | $ (48,840) | $ (15,438) | $ (4,459) |
| | Pro forma | $ (57,252) | $ (20,836) | $ (6,545) |
| Loss per share: | As reported - Basic & Diluted | $ (1.25) | $ (0.45) | $ (0.16) |
| | Pro forma - Basic & Diluted | $ (1.46) | $ (0.61) | $ (0.23) |

The Company previously reported pro forma net loss of $(51.5) million, $(18.1) million and $(5.6) million in each of the fiscal years ended October 31, 2002, 2001 and 2000, respectively. Also, the Company previously reported pro forma basic and diluted net loss per share of $(1.32), $(0.61) and $(0.23) in each of the fiscal years ended October 31, 2002, 2001 and 2000, respectively.The Company was using an unaffiliated outside service to determine the pro forma stock option expense for each of the years ended October 31, 2002, 2001 and 2000, using the Black-Scholes model. Based, in part, upon written material provided by this outside service, the Company believed that this outside service provided a consolidated dollar amount of the pro forma stock option expense for each period, including the unamortized portions of the pro forma stock option expense from applicable prior periods, which should have been included in the fiscal 2002, 2001 and 2000 pro forma expense. Instead, the pro forma expense amounts provided by the outside service only related to the portion of the expense for each of these fiscal years, without inclusion of any unamortized portions from the applicable prior periods. This resulted in the pro forma information originally presented in Note 13 to Consolidated Financial Statements to be incorrect. The Company has corrected the pro forma net loss to reflect all unamortized portions of stock option expense which results in an increased pro forma net loss and pro forma basic and diluted loss per share then was previously reported. This disclosure has been amended to reflect the revised calculation.

This footnote pro forma revision has no impact on reported revenue, net loss, cash flow or financial position for the fiscal years ended October 31, 2000, 2001 and 2002.

**(14) Employee Benefits**

The Capital Accumulation Plan for employees of FuelCell Energy, Inc. was established by us on January 19, 1987 and was last amended on June 15, 1999. A three-member pension committee administers the Plan. The plan is a 401(k) plan covering our full time employees who have completed one year of service. We contribute a cash amount equal to 5% of each participant's W-2 compensation to the plan on a monthly basis. Participants are required to contribute a minimum of 3% in order to be eligible to participate and receive a company match. An employee may then choose to make voluntary contributions up to an additional 12% of W-2 compensation out of pretax earnings. Effective June 1, 1997, participants may make voluntary contributions up to an additional 6% of W-2 compensation out of after-tax earnings. Under the plan, there is no option available to the employee to receive or purchase our common stock. We charged $568, $402, and $328 to expense during the years ended October 31, 2002, 2001 and 2000, respectively.

The FuelCell Energy, Inc. Money Purchase Plan, a defined contribution plan was established by us on May 10, 1976 and was last amended on June 1, 1997. The Plan covers our full-time employees who have completed one year of service. We contribute a cash amount equal to 4% of each participant's W-2 compensation to the plan on a monthly basis. There is no option available to receive or purchase our common stock. We charged $478, $340, and $264 to expense during the years ended October 31, 2002, 2001 and 2000, respectively.

Effective February 1, 2003, the Money Purchase Plan will cease and all funds will be merged into the Capital Accumulation Plan. The balance in each participant's Money Purchase Plan will be transferred to the Capital Accumulation Plan investment fund as currently elected. Under the new consolidated plan, the company match will increase to a maximum of 6% and the vesting period will be adjusted to five years.

**(15) Income Taxes**

The components of Federal income tax expense (benefit) were as follows for the years ended October 31, 2002, 2001 and 2000:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Current: | | | |
| Federal | $ (284) | $ - | $ - |
| Foreign | - | - | - |
| | (284) | - | - |
| Deferred: | | | |
| Federal | 291 | - | - |
| Foreign | - | - | - |
| | 291 | - | - |
| Total income tax expense | $ 7 | $ - | $ - |

State income tax expense (income), which is included in administrative and selling expenses, was $(130), $210, and $180, for the years ended October 31, 2002, 2001 and 2000, respectively.

The reconciliation of the federal statutory income tax rate to our effective income tax rate for the years ended October 31, 2002, 2001 and 2000 was as follows:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| | - | - | - |
| Statutory Federal income tax rate | (34.0%) | (34.0%) | (34.0%) |
| Nondeductible expenditures | - | - | - |
| Other, net | - | - | - |
| Valuation Allowance | 34.0% | 34.0% | 34.0% |
| Effective income tax rate | 0.0% | 0.0% | 0.0% |

Our federal and state deferred tax assets and liabilities consisted of the following at October 31, 2002, 2001, and 2000:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Deferred tax assets: | | | |
| Compensation and benefit accruals | $ 348 | $ 767 | $ 495 |
| Bad debt and other reserves | 361 | 300 | 257 |
| Capital loss and tax credit carryforwards | 140 | 319 | 321 |
| Net Operating Loss | 26,328 | 8,842 | 1,666 |
| Inventory reserve | 3,069 | 28 | - |
| Other | - | 78 | 64 |
| Gross deferred tax assets | 30,246 | 10,334 | 2,803 |
| Valuation allowance | (28,811) | (9,452) | (2,244) |
| Deferred tax assets after valuation allowance | 1,435 | 882 | 559 |
| Deferred tax liability: | | | |
| Accumulated depreciation | (1,435) | (591) | (268) |
| Gross deferred tax liability | (1,435) | (591) | (268) |
| Net deferred tax assets (State and Federal) | $ - | $ 291 | $ 291 |

The valuation allowance increased approximately $19,400 for the year ended October 31, 2002. This increase relates primarily to the current year net operating loss. Approximately $1,500 of the valuation allowance will reduce additional paid in capital upon subsequent recognition of any related tax benefits.

We continually evaluate our deferred tax asset as to whether it is "more likely than not" that the deferred tax assets will be realized. In assessing the realizability of its deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies. Based on the projections for future taxable income over the periods in which the deferred tax assets are realizable, management believes that significant uncertainty exists surrounding the recoverability of the deferred tax assets. As a result, we recorded a full valuation allowance against our net deferred tax assets.

At October 31, 2002, we had available, for federal and state income tax purposes, net operating loss carry-forwards of approximately $68,000 and $64,000, respectively, expiring in varying amounts from 2020 through 2022.

**(16) Earnings Per Share**

Basic and diluted earnings per share are calculated using the following data:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Weighted average basic Common shares | 39,135,256 | 34,359,320 | 28,297,594 |
| Effect of dilutive securities | - | - | - |
| Weighted average basic Common shares adjusted for diluted calculations | 39,135,256 | 34,359,320 | 28,297,594 |

The computation of diluted loss per share for fiscal years 2002, 2001 and 2000 follows the basic calculation since common stock equivalents were antidilutive. The weighted average shares of dilutive securities that would have been used to calculate diluted EPS had their effect not been antidilutive would have been 4,965,118, 3,982,456 and 3,497,126, in 2002, 2001 and 2000 respectively.

**(17) Selected Quarterly Financial Data (unaudited)**

| | Revenues | Net income (loss) | Earnings per share Basic and diluted |
|---|---|---|---|
| **Year Ended 10/31/2002** | | | |
| First quarter | $ 7,001 | $ (6,027) | $ (0.15) |
| Second quarter | 8,565 | (8,877) | (0.23) |
| Third quarter | 11,962 | (13,190) | (0.34) |
| Fourth quarter | 13,703 | (20,746) | (0.53) |

| | Revenues | Net income (loss) | Earnings per share Basic and diluted |
|---|---|---|---|
| **Year Ended 10/31/2001** | | | |
| First quarter | $ 5,333 | $ (2,792) | $ (0.09) |
| Second quarter | 6,493 | (5,073) | (0.16) |
| Third quarter | 7,622 | (2,765) | (0.08) |
| Fourth quarter | 6,731 | (4,808) | (0.12) |

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**FUELCELL ENERGY, INC.**

/s/ Joseph G. Mahler
Joseph G. Mahler
Chief Financial Officer, Senior Vice
President, Corporate Secretary, Treasurer
(Principal Accounting and Financial Officer)

September 26, 2003