FUELCELL ENERGY INC

FORM 10-Q
(Quarterly Report)

Filed 3/18/1998 For Period Ending 1/31/1998

Address	3 GREAT PASTURE RD
	DANBURY, Connecticut 06813
Telephone	203-825-6000
CIK	0000886128
Industry	Electronic Instr. & Controls
Sector	Technology
Fiscal Year	10/31

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[Mark One]

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

For the quarterly period ended January 31, 1998

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-24852

ENERGY RESEARCH CORPORATION

(Exact name of registrant as specified in its charter)

New York	06-0853042
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3 Great Pasture Road, Danbury, Connecticut 06813
(Address of principal executive offices) (Zip code)

Registrant's telephone number including area code: (203) 792-1460

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all documents and 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.

[X] Yes [ ] No

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the Registrant's Common Stock, par value $.0001, as of March 13, 1998 was 4,055,222.

ENERGY RESEARCH CORPORATION

FORM 10-Q

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Part 1 - Financial Information

Item 1. Financial Statements

ENERGY RESEARCH CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in thousands, except per share amounts)
(Unaudited)

	January 31, 1998	October 31, 1997
ASSETS:		
Current Assets:		
Cash and cash equivalents	$4,651	$6,802
Accounts receivable	4,130	2,828
Inventories	78	47
Deferred income taxes	265	205
Other current assets	390	279
Total current assets	9,514	10,161
Property, plant and equipment, net	8,194	8,254
Other assets, net	2,968	3,018
Total Assets	$20,676	$21,433
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current Liabilities:		
Current portion of long-term debt	$959	$1,702
Accounts payable	474	865
Accrued liabilities	1,251	1,182
Income taxes payable	12	-
Deferred license fee income	304	46
Total current liabilities	$3,000	$3,795
Long Term Liabilities:		
Long-term debt	$2,504	$2,699
Deferred income taxes	142	170
Total liabilities	$5,646	$6,664
Shareholders' Equity:		
Convertible preferred stock, Series C ($.01 par value); 30,000 shares issued and outstanding at January 31, 1998 and October 31, 1997, respectively	600	600
Common Shareholders' Equity:		
Common stock ($.0001 par value); 8,000,000 shares authorized: 4,019,254 and 4,000,650 shares issued and outstanding at January 31, 1998 and October 31, 1997, respectively		
Additional paid-in capital	$11,614	$11,460
Retained earnings	2,816	2,709
Total common shareholders' equity	14,430	14,169
Total shareholders' equity	15,030	14,769
Total Liabilities and Shareholders' Equity	$20,676	$21,433

See notes to consolidated condensed financial statements.

Part I - Financial Information

Item I. Financial Statements

ENERGY RESEARCH CORPORATION
CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended January 31,	
	1998	1997
Revenues	$3,907	$5,696
Costs and Expenses:		
Cost of revenues	2,447	3,878
Administrative and selling expenses	596	1,049
Depreciation	486	512
	3,958	5,652
Income/ (loss) from operations	(51)	44
License fee income, net (includes income from related parties of $67 and $79 for the three months ended January 31, 1998 and 1997, respectively)	211	89
Interest expense	(83)	(101)
Interest and other income, net	51	99
Income before provision for income taxes	128	131
Provision for income taxes	21	56
Net income	$107	$75
Earnings per share:		
Basic earnings per share	$.03	$.02
Basic shares outstanding	4,008,849	3,915,646
Diluted earnings per share	$.03	$.02
Diluted shares outstanding	4,183,244	4,222,877

See notes to consolidated condensed financial statements.

Part I - Financial Information

Item I. Financial Statements

ENERGY RESEARCH CORPORATION
CONSOLIDATEDCONDENSED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED JANUARY 31,
(Dollars in thousands)
(Unaudited)

	1998	1997
Cash flows from operatig activities:		
Net income	$107	$75
net cash provided by (used in) operating activities:		
Compensation for options granted	62	-
Depreciation and amortization	570	609
Deferred income taxes	(88)	-
Conversion of accrued interest to principal on long-term debt	-	11
Changes in operating assets and liabilities:		
Accounts receivable	(1,302)	(505)
Inventories	(31)	7
Other current assets	(111)	(293)
Accounts payable	(391)	(428)
Accrued liabilities	69	(116)
Income taxes payable	12	(11)
Deferred license fee income	258	246
Net cash provided by (used in) operating activities	(845)	(405)
Cash flows from investing activities:		
Capital expenditures	(426)	(903)
Payments on other assets	(34)	(18)
Net cash used in investing activities	(460)	(921)
Cash flows from financing activities:		
Repayments of long-term debt	(938)	(1,575)
Common stock issued	92	38
Net cash provided by (used in) financing activities	(846)	(1,537)
Net increase in cash and cash equivalents	(2,151)	(2,863)
Cash and cash equivalents, beginning of period	6,802	7,597
Cash and cash equivalents, end of period	$4,651	$4,734
Supplemental disclosure of cash paid during the period for:		
Interest	$74	$93
Income taxes	$186	$117

See notes to consolidated condensed financial statements.

Part I - Financial Information

Item 1. Financial Statements

ENERGY RESEARCH CORPORATION
NOTES TO UNAUDITED CONSOLIDATED CONDENSED
FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION

The accompanying consolidated condensed financial statements for Energy Research Corporation (the "Registrant"), have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position of the Company as of January 31, 1998 and the results of operations for the three months ended January 31, 1998 and 1997 and cash flows for such three month periods have been included.

Information included in the Consolidated Condensed Balance Sheet as of October 31, 1997 has been derived from audited financial statements included in the Company's Annual Report on Form 10-K for the year ended October 31, 1997, but does not include all disclosures required by generally accepted accounting principles.

The results of operations for the three months ended January 31, 1998 and 1997 are not necessarily indicative of the results to be expected for the full year.

The reader should supplement the information in this document with prior disclosures in the form of previous 10-Q's and the 1997 10-K.

NOTE 2: LICENSE AGREEMENTS AND SIGNIFICANT CONTRACTS

The Company recognizes from licensees income in each reporting period. The Company is not obligated to return any of the license income payments. A royalty is payable to the Company on commercial product sales. To date the Company has not received any royalty payments. The Company is obligated to share new technological developments with the licensee concerning the licensed technology. Under the licenses the Company is not obligated to continue development of the technology.

In December 1994, the Company entered into a $136,000,000 Cooperative Agreement with the U.S. Department of Energy (DOE) that provided that the DOE would provide $78,000,000 to the Company over the next five years to support the continued development and improvement of the Company's commercial product. The balance of the funding is expected to be provided by the Company, the Company's partners or licensees, other private agencies and utilities. Approximately 60% of the non-DOE portion has been committed or credited to the project in the form of in-kind or direct cost share from non-U.S. government sources. There can be no assurance that the final 40% of the private sector funding will be available on favorable terms, if at all. Failure of the Company to obtain the required funding could result in a delay or reduction of DOE funding.

Part I - Financial Information

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

Results of Operations
Comparison Three Months Ended January 31, 1998 and January 31, 1997

Revenues decreased 31% to $3,907,000 in the 1998 period from $5,696,000 in the 1997 period. The expected decrease was due primarily to the completion of the two-megawatt Direct Fuel Cell power plant project in Santa Clara, California. Revenues in the remaining 1998 periods are expected to continue to be lower than the comparable periods in 1997.

Cost of revenues decreased 37% to $2,447,000 in the 1998 period from $3,878,000 in the 1997 period. The decrease was due substantially to the decreased revenues mentioned above.

Administrative and selling expenses decreased 43% to $596,000 in the 1998 period from $1,049,000 in the 1997 period. The decrease was due to the incurrence of $916,000 of unbilled, but recoverable costs in the 1998 period. These costs will be recognized with the associated revenues during the remainder of the fiscal year. Depreciation decreased 5% to $486,000 in the 1998 from $512,000 in the 1997 period. Research and development expense increased 101% to $429,000 in the 1998 period from $213,000 in the 1997 period. The increase was substantially due to expanded battery development activities.

Income from operations resulted in a loss of $51,000 in the 1998 period compared to $44,000 of income in the 1997 period. The loss was primarily due to the incurrence of certain non-recoverable employment costs associated with the hiring of the chief executive officer in the 1997 period. The remainder of the decrease was due to the decrease in the revenues mentioned above. Income from operations in the remaining 1998 periods will be reduced by certain non-recoverable employment costs.

License fee income, net, increased 137% to $211,000 in the 1998 period from $89,000 in the 1997 period. The increase was due primarily to the recognition of license income under the Company's battery license with Corning, Inc.

Interest expense decreased 18% to $83,000 in the 1998 period from $101,000 in the 1997 period. The decrease was due primarily to the complete repayment of debt to MTU-Friedrichshafen GmbH (MTU) during the 1998 period and the repayment of $684,000 of principal to MTU during the 1997 period.

Interest and other income, net, decreased 48% to $51,000 in the 1998 period from $99,000 in the 1997 period. The decrease was primarily due to the use of cash for debt repayment during the 1998 and 1997 periods.

Liquidity and Capital Resources

Working capital at January 31, 1998 was $6,514,000, including $4,651,000 of cash and cash equivalents, compared to working capital of $6,366,000 at October 31, 1997, including $6,802,000 of cash and cash equivalents.

During the 1998 period, the Company used $845,000 of cash in operating activities. During that period, accounts receivable increased $1,302,000,and accounts payable decreased $391,000. Accounts receivable increased $1,302,000 primarily due to the incurrence of $1,675,000 of unbilled but recoverable costs that will be recognized with the associated revenues during the remainder of the fiscal year. Accounts payable decreased $391,000 primarily due to the lower revenues during the period. Net cash from operating activities also included the Company's net income of $107,000.

The Company's capital expenditures are incurred primarily to support ongoing contracts and to replace existing equipment. Capital expenditures for the 1998 period were $426,000. The capital expenditures were financed from the recovery of depreciation expense under cost-reimbursement contracts and cooperative agreements.

In fiscal year 1990, the Company borrowed $1,980,000 from MTU at a rate of 6% per annum. The payment of principal and interest was deferred until November 30, 1996. The indebtedness, including deferred interest, as of October 31, 1996 was $1,926,000. This loan was secured by the pledge of FCMC stock and certain machinery, equipment and leasehold improvements at the Torrington, Connecticut, facility. The accrued interest on the loan was payable at the Company's option. The principal amount of the loan could be converted at MTU's option, into the Company's common stock at a conversion rate of $9 per share prior to November 30, 1996. During fiscal 1996, $877,000 of this loan was converted into 97,397 shares of common stock of the Company. MTU extended the maturity of $630,000 of the loan to November 30, 1997 with the right to convert to common stock at $9 per share. During December 1996, the Company paid to MTU $1,296,000 of principal and interest. During December, 1997 the Company paid the entire balance of principal and interest due in the amount of $673,000.

In December 1994, the Company entered into a $136,000,000 Cooperative Agreement with the U.S. Department of Energy (DOE) that provided that the DOE would provide $78,000,000 to the Company over the next five years to support the continued development and improvement of the Company's commercial product. The balance of the funding is expected to be provided by the Company, the Company's partners or licensees, other private agencies and utilities. Approximately 60% of the non-DOE portion has been committed or credited to the project in the form of in-kind or direct cost share from non-U.S. government sources. There can be no assurance that the final 40% of the private sector funding will be available on favorable terms, if at all. Failure of the Company to obtain the required funding could result in a delay or reduction of DOE funding.

The Company will need to raise additional funds to expand the capacity of FCMC. The first stage in this process is to raise the output capability to 50 MW per year. Approximately $16 million has been estimated for this step. There can be no assurance that this funding will be available or if available will result in an output level which will result in a cost competitive fuel cell stack. Meanwhile, the Company is using existing funds to expand production capacity incrementally.

The Company has reviewed the hardware and software of its information systems. The Company believes the year 2000 will not have a material impact on its financial position.

The Company anticipates that its existing capital resources together with anticipated revenues will be adequate to satisfy its existing financial requirements and agreements through fiscal 1998.

Part II - Other Information

Item 6 - Exhibits and Reports on Form 8

EXHIBIT INDEX

(a) EXHIBIT DESCRIPTION PAGE NO.

EXHIBIT NO.

11	Reconciliation of numerators and denominators of the basic and dilutive EPS computation January 31, 1998 and January 31, 1997.	10
27	Financial Data Schedule	11

(b) Reports On Form 8-K

NONE

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENERGY RESEARCH CORPORATION

/s/ Louis P. Barth
Louis P. Barth
Senior Vice President, CFO
Treasurer/Corporate Secretary

Dated: March 17, 1998

EXHIBIT NO. 11

ENERGY RESEARCH CORPORATION
RECONCILIATION OF NUMERATORS AND DENOMINATORS
OF THE BASIC AND DILUTIVE EPS COMPUTATION

	For The Quarter Ended January 31, 1998		
	Income (Numerator)	Shares (Denominator)	Per-Share (Amount)
Basic EPS			
Income available to common shareholders	$107,000	4,008,849	$.03
Effect of Dilutive Securities			
Stock based compensation		144,395	
Preferred "C" convertible		30,000	
Diluted EPS			
Income available to common shareholders	$107,000	4,183,244	$.03

	For the Quarter Ended January 31, 1997		
	Income (Numerator)	Shares (Denominator)	Per-Share (Amount)
Basic EPS			
Income available to common shareholders	$ 75,000	3,915,646	$.02
Effect of Dilutive Securities			
Stock based compensation		207,231	
Preferred "C" convertible		30,000	
Convertible debt		70,000	
Diluted EPS			
Income available to common shareholders	$ 75,000	4,222,877	$.02

ARTICLE 5

PERIOD TYPE	3 MOS
FISCAL YEAR END	OCT 31 1998
PERIOD END	JAN 31 1998
CASH	4,651
SECURITIES	0
RECEIVABLES	4,130
ALLOWANCES	0
INVENTORY	78
CURRENT ASSETS	9,514
PP&E	19,937
DEPRECIATION	11,743
TOTAL ASSETS	20,676
CURRENT LIABILITIES	3,000
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	14,430
OTHER SE	600
TOTAL LIABILITY AND EQUITY	20,676
SALES	3,907
TOTAL REVENUES	3,907
CGS	2,447
TOTAL COSTS	3,958
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	83
INCOME PRETAX	128
INCOME TAX	21
INCOME CONTINUING	107
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	107
EPS PRIMARY	.03
EPS DILUTED	.03

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