

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

FuelCell Energy, Inc. (FCEL)



R. DANIEL BRDAR named FuelCell Energy's Chief Executive Officer at the start of 2006, Mr. Brdar was appointed Chairman of the Board in 2007. Mr. Brdar has an extensive track record as a member of the company's management team. Since joining the firm in 2000, he has led manufacturing, sales and marketing, and product development operations, and was responsible for the FuelCell Energy's successful cost-out efforts. Mr. Brdar has 24 years of combined technology development and new product introduction experience in a variety of executive positions within the industry. Prior to joining FuelCell Energy, he held management positions at General Electric, where he focused on new product introduction programs for its GE Power Systems business unit, and was product manager for its gas turbine technology. Prior to GE he

was Associate Director, Office of Power Systems Product Management, at the U.S. Department of Energy where he was responsible for directing the research, development and demonstration of advanced power systems including advanced gas turbines, gasification systems and fuel cells. He earned his Bachelor of Science Degree in Engineering from the University of Pittsburgh in 1981.

TWST: We'd like to begin with a brief sketch of FuelCell, and a picture of the things you're doing right now.

Mr. Brdar: The company was founded in 1969 and was started by Dr. Bernie Baker, who is a very well known scientist in the field of electrochemistry. He had a view of fuel cells, in particular carbonate-based fuel cells, ultimately being a product that would be very cost effective and competitive in the marketplace.

For years, the company was involved in a lot of government funded research and development work, much of it sponsored by the U.S. Department of Energy, working on both fuel cells and batteries until it got to the point where the fuel cell technology was far enough down the development road that they could begin commercialization. That road began in earnest in 2003, when they shipped our first product off to Kirin Brewery in Japan. They have been working ever since then to improve the product, drive our cost down and to increase our presence in the marketplace.

TWST: Would you describe your principal products?

Mr. Brdar: We have three products that we're putting into the marketplace. They're all based on our core carbonate fuel cell technology. One is a 300-kilowatt product, one is a 1.2-megawatt product and the third is a 2.4-megawatt product. We use multiple units of our 2.4-megawatt product for multi-megawatt installations up to 50 megawatts.

TWST: In what ways might your products be somewhat better than those of competitors?

Mr. Brdar: If you look at what is really unique about our fuel cell technology, it has several things going for it. First of all, it is the most efficient way to make electricity in its size range. There is no other product out there that is more efficient in the sizes that we're in, which means that you use less fuel to make a kilowatt-hour of electricity. In today's high fuel cost environment, that's very important. It also means we make less CO₂ than the competing technologies.

The other key aspect is that since it is an electrochemical-based product, there is no combustion. As a result, we don't have the pollution that you would see with conventional generation like you do with a gas engine or a gas turbine.

TWST: How much further can it go? What might the next generation be like?

Mr. Brdar: Under some funding with the U.S. Department of Energy, we have a combination of fuel cell turbines, where we use the waste heat from our fuel cell to do additional work in an unfired turbine cycle. We have actually built the first of those units and sent it to a customer site, where it set a record level of efficiency. Our focus now is going to be to identify what the right-sized product is to bring to market for the future, where we have the potential to exceed the state-of-the-art in gas turbine combined cycle efficiencies.

The other product is one that we've developed for the pipeline applications with our partner Enbridge, Inc. (NYSE:ENB) a large gas company out of Canada. We take the energy in the compressed gas stream, expand it through a turbo expander, use the gas

Northeast. We have customers like Sierra Nevada Brewery and Cal State Northridge, which want to be a leader in their space.

Starwood Hotels is another example where they want to be green. They want to do the right thing for the environment, but they also want to save money. What we've been able to do was to attract some world-class partners to help us commercialize our products. So we've worked with companies like Chevron, Caterpillar, POSCO Power in Korea and Marubeni in Japan — very high profile strategic partners that recognize the value that our product can bring.

TWST: What are your thoughts about acquisitions and mergers?

Mr. Brdar: From us as an acquirer, we don't see anybody that fits our immediate needs although we're always looking to see what is out there in the marketplace. As a pure play, we demonstrate growth in our own business, and we demonstrate our ability to continue to drive our products down. Some larger player will probably look at acquiring us because of what we can bring to another company's mix of energy products in their portfolio.

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to fuel the fuel cell and use the fuel cell's waste heat to keep the expansion equipment warm. It also is a relatively no emissions, high efficiency approach to take what used to be wasted energy in the pipeline business and turn it into electricity.

TWST: What challenges could arise? What might you worry about?

Mr. Brdar: For us, the challenge as a market leader and as a relatively small company is to let people know that there is an opportunity out there, and that fuel cells for stationary generation exist today. When most people think about fuel cells, they typically think about them for the transportation sector. So our biggest challenge is one of awareness. We have a cost competitive solution that we can bring to the market to solve customers' needs.

TWST: You mentioned one partner and one customer. Would you tell us more about your customers and partners?

Mr. Brdar: From the customer side, we are fortunate to have some terrific early adopter customers who have a passion about the environment and who want to adopt a superior technology. As a result, we find a lot of those in locations like California, in Asia, where there is a lot of concern about CO2 emissions in the environment, and in the

TWST: How many employees do you have?

Mr. Brdar: Right now, we're at about 380, but we are also in a process of ramping up our production, which will mean adding a significant number of people in our factory. We'll probably be adding at least 100 people in the next year.

TWST: Would you discuss your business strategy for the next few years?

Mr. Brdar: Our focus near term is going to be in a couple of key areas. One is in our home state of Connecticut. We have been targeted for 68 megawatts worth of awards under the state's program to deploy clean energy. Our near-term focus is going to be to convert as many of those to actual orders so that we can begin producing product. That is a key priority for us.

Also key for us is to continue to grow the repeat markets that we see in California and Asia, Korea in particular. While we do that, we continue to drive the cost of our product down. We have been reducing the cost of our product by 20% to 25% a year. Like any new technology, it tends to be more costly than more mature alternatives, so the key for us is to continue to drive the product cost down while we grow our orders flow.

TWST: I read that fuel cell technology was more or less invented in the 19th century. Why did it take so long for it to get rolling?

Mr. Brdar: There were several reasons. One is that many of the fuel cell types of technology that were explored decades ago were unique concepts. Each fuel cell technology has its own fit in the marketplace. Some of the more advanced technologies like carbonate required a lot of technological development to solve some of the basic technology challenges that they had. That only happens after a relatively long period of time and a lot of investment. We've been fortunate that we had the U.S. Department of Energy as a key partner for us to solve those technical challenges, so now it becomes more about cost competitiveness versus pure technology development.

TWST: What would you reasonably expect the company to look like in about three years?

Mr. Brdar: In about three years, I would expect us to be significantly bigger than we are now, just based on the business ramp that we have in front of us. I would expect us to be able to get out of the need for subsidies and incentives that we're dependent on right now for some early project economics to work and for us to reach the broader market because of the success that we will have had capturing early orders and driving our product cost down.

TWST: For the benefit of the potential investor, what might be some year-by-year milestones to look for?

Mr. Brdar: Near term, you want to watch for order growth. That's going to be key for us in supporting the ramping up of our business. We're watching what we close for orders here as a result of the process in Connecticut, which we have selected for the 68 megawatts. We're looking for repeat order flow in California and in Korea. As we announce how we're doing quarter to quarter, are you seeing the cost reductions flow through our P&L? That is a strong signal that we have the ability to take on significantly more order flow without an increase in cash burn.

TWST: Could you go on from there to tell us a little about your own background and expertise, and the same for a couple of your colleagues?

Mr. Brdar: I actually joined this company from General Electric, where I was responsible for the gas turbine product line. I was involved in new product introductions for the company. I learned a lot about how you manage an engineered product and how you drive its cost down and its reliability up at the same time. Prior to that, I worked for the U.S. Department of Energy, where I was responsible for all of the advanced energy products like fuel cells, gas turbines and coal gasification, so I knew of the company and its tech-

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TWST: What about government policy? It's very much on your side these days, and I would think that it would continue and even accelerate. What do you expect?

Mr. Brdar: We actually do see the momentum here accelerating. The energy bills being debated in the Senate right now are very favorable to fuel cell technology. In California, we saw the head of the Public Utility Commission talking about how we need to do things other than just pure renewables. There has to be a fit for things like natural gas-based technologies like fuel cells.

At the federal level, we see the increasing likelihood that we're going to see some kind of a federal renewable portfolio standard program and/or some kind of a program to address carbon dioxide emissions. Those are very favorable for our technology, and we think collectively they are creating an environment where there is going to be overwhelming support on the regulatory and political side to see these things get into the marketplace.

nologies long ago. I always knew that they had tremendous technology and capability that ultimately would result in a great product.

Joe Mahler is our Chief Financial Officer. He has been with the company since 1998. He joined us from a company called Earthgro, where he was the Chief Financial Officer. Prior to that, he worked at Ernst & Young. Bruce Ludemann, our SVP of Sales and Marketing, joined us from Siemens. He has been with the company for a little over a year and has helped drive a lot of our sales strategy. He has come up with some creative approaches for how we can grow our markets, and even though he has only been here a year, he has been off to a great start and had a significant impact.

TWST: What occupies your own attention most day by day?

Mr. Brdar: For me, it's a couple of things. It's making sure that we are ramping our business up in an orderly fashion. It's making sure that we are focused on closing near-term opportunities that

we've got in the marketplace. We've got a pipeline that is unprecedented in the company's history in terms of the sales potential — we just need to convert those to orders. The other is to make sure that we stay on track with delivering the cost reductions that we've promised the marketplace and our shareholders.

TWST: Are all of your 380 people in Danbury?

Mr. Brdar: No. There are about 150 or so at our factory in Torrington, and the rest are in Danbury, which is where we have our headquarters, engineering R&D and back office functions.

TWST: Do you see any need to improve the company's capital structure?

Mr. Brdar: We're fortunate that we've been able to go to the market to raise capital when it was needed — in fact, we did that not too long ago. So we are in a position now where we've got over \$170 million on our balance sheet. We're in a pretty good position here in terms of being able to execute our business plan, so there is no immediate need for us to go do anything.

The key objective now is to make sure that we use that cash wisely, and we're also in a position where we have no debt on the balance sheet. So as we start to do some of these bigger projects, there is an opportunity for us to start to bring some other sources of capital into play, whether it is traditional project financing, financing receivables or the traditional debt plays that a more mature business does.

TWST: Do you feel that the investment community at this point understands the company reasonably well?

Mr. Brdar: Our existing shareholder base understands us very well. From a broader perspective, there is still a fair amount of confusion about fuel cells in general, mostly because a lot of education needs to be done to differentiate fuel cells for stationary power versus the transportation sector, which is still a market that I believe is a long way off.

TWST: What would be the two or three best reasons for the long-term investor to look closely at FuelCell Energy?

Mr. Brdar: Clearly, there is an increasing demand for ultra clean power. We're seeing that all the time. If you pick up a copy of *The Wall Street Journal* or *The New York Times*, there is an article every day about energy, the environment and the need to do something about our impact on global warming, so it's becoming mainstream in our thought process.

FuelCell Energy is the only company that is producing a product that fits a space that does what nobody else can. We see a lot of attention on solar and wind. These great technologies have a significant place in the marketplace. Solar is great when the sun is shining and wind is great when the wind is blowing, but we a 24/7 firm that is ultra clean that does what solar and wind can't run. So we represent an opportunity to play a unique role in this marketplace. It presents a tremendous opportunity for the company and for

our shareholders to share in that if we're successful in capturing that market.

TWST: How far off is the transportation use of it?

Mr. Brdar: Because of what needs to be done both on the cost side and on the infrastructure side, it's at least 10 years away.

TWST: Is there anything that you would like to add, especially regarding strategies, long-term objectives and reasons for an investor to look at the company?

Mr. Brdar: If you look at the macro environment and at the tremendous pressure there is to do something differently in terms of how we make and use energy, there's an opportunity for companies like FuelCell Energy to produce a product in the marketplace that not only satisfies an economic need, but also fits with the societal objective to try to use our energy more wisely and improve the environment. There is a unique opportunity in our space to actually make that happen.

TWST: Can improving the environment be quantified? In a given situation, can you give somebody that you're talking to some numbers?

Mr. Brdar: If you look at the state-of-the-art gas turbine, for example, we produce orders of magnitude less Nitrous Oxide & Sulfur Oxide. If you look at a coal-fired power plant, our unit with heat recovery produces one-quarter of the CO₂. Thinking about those two conventional technologies, if we deployed fuel cells in place of combustion-based technologies, particularly things like coal plants, the potential impact is enormous.

TWST: Could there be situations where your technology was used in combination with a combustion-based technology?

Mr. Brdar: One of the things that our partner Caterpillar is looking at is how to couple fuel cells in engines where the engine can provide some of the load following and peaking needs of a customer, while the fuel cell provides some of the base load needs and fits together very nicely.

TWST: Thank you.

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