

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

FuelCell Energy, Inc. (FCEL)



R. DANIEL BRDAR was named CEO of FuelCell Energy, Inc., in 2006 and Chairman in January 2007. Mr. Brdar has over 24 years of combined technology development and new product introduction experience in a variety of executive positions. He previously held management positions at General Electric, where he focused on new product introduction programs for GE's Power Systems business unit, and he was Product Manager for its gas turbine technology. Prior to GE, Mr. Brdar was Associate Director, Office of Power Systems Product Management at the U.S. Department of Energy. He earned his B.S. degree in engineering from the University of Pittsburgh.

SECTOR – ENERGY

TWST: Would you begin with a brief overview of your company?

Mr. Brdar: We've been around for a long time, been around for 40 years. What our company does is we focus on manufacturing large-scale, ultraclean stationary fuel cells, really targeting industrial, commercial and utility-scale applications. And the product that we make is one that provides clean, efficient, cost-effective energy for our customers. And we do that through a technology that electrochemically converts a fuel, like a biogas or natural gas, into clean electricity. It's a product that we developed in combination with the U.S. Department of Energy, so we now have this commercial product that we're manufacturing in our home state of Connecticut and shipping around the world. Internationally, the largest market for our products is in Asia.

TWST: Tell us a bit about your Korean partner.

Mr. Brdar: POSCO Power, they are the largest independent power producer in Korea. They are a subsidiary of POSCO, which I believe is the fourth-largest steel company in the world. They partnered with us exclusively for the Korean marketplace, because they bring the local access and the local capability, and we bring the products and the technology. And in the longer term, there are a lot of synergies because some of the primary components of our product are nickel and stainless steel. So being part of a steel company, there are a lot of long-term synergies that we can build off of.

TWST: What do you think sets you apart from your competitors, and what advantages are you able to offer to your customers?

Mr. Brdar: Our products have the highest electrical efficiency of any power generation equipment in their size. That high efficiency means that we're going to use less fuel to make a kilowatt-hour of electricity than any other product, which really contributes significantly to our cost competitiveness. But also because of that high efficiency, it means that we're also going to have lower emissions of greenhouse gases, like carbon dioxide, compared to other technologies. We've also developed a product with one of our strategic partners, Enbridge, a Canadian-based natural gas transmission company, specifically for the natural gas distribution system that has electrical efficiencies in excess of 65%, which is greater than what can be done with any power generation equipment of any size. Our products are also very quiet, and since we don't combust the fuel, we have virtually no harmful emissions, which means you can site or locate the product and have it operate on a continuous basis almost anywhere, even a downtown urban area like New York City or Los Angeles. And this just can't be done with traditional combustion-based power generation products like engines and turbines. And then among fuel cell companies in particular, we're the only company that's producing commercial megawatt and multimegawatt power plants. Our products range in size from as small as 300 kilowatts, which will be enough power for about 150 homes, all the way up to 2.8 megawatts. And we are doing projects at the utility scale that use multiple 2.8 megawatt units that can be put together for projects of up to 40 megawatts to 50 megawatts in size.

TWST: Your revenues were down 33% in Q1 compared to the same period last year. What factors caused the decline, and what strategies do you have in place to grow revenue this year?

Mr. Brdar: Like most companies, our revenues were really impacted by the slowdown in the economy and the lack of financing for our customers. Since we're making capital equipment, there is a long lead time associated with the purchase and delivery of our equipment, typically eight to 10 months. So what you saw in first quarter of this past year, with the reduced revenue, really was a direct reflection of slowdown in orders from the U.S. market that happened in 2009, largely just driven by the credit crisis and the inability of our customers to get financing. Fortunately for us, our market in Asia has continued to grow, so we ended up entering the fiscal year with the highest backlog in our history, largely driven by orders from Asia. Going forward, our growth is really going to come from several areas. Earlier this year, South Korea passed a national renewable portfolio standard that specifically includes fuel cells operating on natural gas. So even prior to this national program, South Korea was our largest and fastest-growing market. The goal of

to get a diversity of technologies, say, portfolio of green technologies and traditional technologies, to solve the needs. And the commission does a really good job of that, if you look at how cost competitive power is in places like Los Angeles and other parts of California compared to places like New York City. If you look at the specific decision made by the Public Utility Commission, these would actually be the first direct purchases of our products by large investor-owned utilities in the U.S. It's a big step for us domestically in the adoption and the acceptance of the role that fuel cells can play in meeting our power generation needs, relieving the congestion in our aging electrical transmission and distribution system, and enabling the smart grid. And since California has always been the leader in the U.S. on energy and environmental issues and policies, we would expect that the continued leadership shown by the Public Utility Commission and the California utilities is going to help drive product adoption among other U.S.-based electric utilities.

“Fortunately for us, our market in Asia has continued to grow, so we ended up entering the fiscal year with the highest backlog in our history, largely driven by orders from Asia.”

their program is to have approximately 2,800 megawatts of what they call low-carbon green energy installed by 2015, growing to 7,000 megawatts by 2022, and fuel cells are expected to capture a pretty significant portion of that green energy standard. If you look at where our growth is going to come domestically, we're actually seeing a return of power project financing as the credit markets heal. That's coupled with our participation in the U.S. Department of Energy Loan Guarantee Program, which was part of the stimulus bill, and it's expected to grow our backlog of orders here in the U.S. And the third area of growth for us going forward is really going to be a little bit longer term, but it's going to come from Europe. We are currently in discussions with potential partners for the European market, which is largely an untapped market for us at this point in time.

TWST: Can you elaborate on the current status of your efforts to build partnerships in Europe?

Mr. Brdar: We look at Europe as being, not a cohesive market, it's one that is going to take probably several different partnerships, because the European market, German market, the U.K., are all very different in terms of the companies that are successful there and what is the most effective manner to access the customer. So we identified what we think are probably the two key markets to go after near term, and we're in discussions with potential partners who have the in-country presence to actually influence policy and potentially localize some of the products. We're hoping to be able to announce some of those distribution relationships a little bit later this year.

TWST: Here in the U.S., the California Public Utilities Commission just authorized PG&E and Southern California Edison to undertake fuel cell projects. What does this mean for your company?

Mr. Brdar: California continues to be a leader, and the Public Utility Commission out there in particular really tends to take a longer-term view of how we are going to address our power needs, how are we going

TWST: Speaking of the U.S. utilities, can you talk about the economic value proposition that you could provide to customers compared to traditional energy providers?

Mr. Brdar: By focusing on our target markets, we're able to provide a green energy solution that provides a combination of attributes that you really can't find in any other technology. Our products generate power continuously, 24/7, unlike solar or wind, which are intermittent sources of power. For many of our customers, the waste heat from the fuel cells is also used to either make steam, hot water or drive absorption chilling for air conditioning, raising that combined heat and power efficiencies to as much as 80% and enhancing the project economics. And since fuel cells aren't combusting a fuel but reacting electrochemically, they are virtually free of harmful emissions and are very quiet, which allows them to be sited almost anywhere, unlike traditional engines or turbines. But most importantly, at the end of the day, for all these new technologies, what it ultimately comes down to is: Can you put projects together that are cost effective? And that's really what our focus has been — to go to those markets where we can work with end-user customers and enable them to take control of the cost and the reliability of their power supply, and do so in a way that would save them money versus what they would pay their local utility.

TWST: I spoke with an analyst who said that it's important right now for fuel cell companies to really focus on markets where you can do well and to be careful not to spread yourself too thin. Can you comment on how you are accomplishing that and the markets you are choosing to focus on?

Mr. Brdar: Yes, that's actually very much on point in terms of what our strategy has been, and so you're talking to somebody who really understands the marketplace pretty well. We spent quite a bit of time analyzing what are the markets that are out there for us, both geographically and vertically. And as a result of that, we have been very,

very focused in the places that we have gone. You don't see us actively marketing much in places like the Midwest where power is very cheap. You don't see us spending time pursuing projects in places like India or Africa or even Eastern Europe. We are really being very targeted both geographically and in terms of the market segments themselves that we're going after. And it's really several different segments that we are focused on.

“Our products generate power continuously, 24/7, unlike solar or wind, which are intermittent sources of power.”

The first, from a vertical market standpoint for us, that we think has tremendous potential, are the biogas applications, basically where you have biologically derived waste gas that comes from either a waste water treatment facility or a food and beverage processor. In those kinds of applications, the end-user customer is typically using an anaerobic digester to reduce the volume of solid waste that they have, and that creates the biogas or waste fuel that is used for our fuel cells. So they end up with a reduced waste stream and the ability to create renewable energy.

The second key vertical market for us is the natural gas distribution system. We've developed a product with Enbridge, which I mentioned earlier, where we use our fuel cell coupled with what is called a turboexpander, and that's used on the natural gas distribution system in pressure letdown stations. When gas is distributed to end users, the pressure has to be dropped from high pressure used in the transmission of natural gas across long distances to what you typically would use in your home. That transition from high-pressure to low-pressure gas wastes the energy that is used to pressurize the gas in the first place, and it requires additional energy input in the form of heat, just in terms of managing the gas letdown process. Our fuel cell turboexpander product turns that wasted energy into ultraclean electricity, with electrical efficiencies that can exceed 65%. Our first unit was installed at Enbridge's facility in Toronto and demonstrated high availability, or uptime, and a peak efficiency of 70%, which is just unprecedented in the electrical business. And we have four additional projects using that product that were selected as part of Connecticut's renewable portfolio standard program.

The third vertical for us really is the utility-scale applications, places that have state or federal renewable portfolio standards are an excellent market for us. As a fuel cell company, we're uniquely positioned to compete because of the fact that there just isn't any other company making megawatt-class fuel cells. We had 45 megawatts that were selected in Connecticut as part of its RPS standard. The recent announcements we just talked about in California with California Utility ownership of our products and in South Korea, it's largely utility-scale deployment. They all represent really strong long-term opportunities and growth for our business. Looking geographically, California is going to continue to be our leading domestic market since it's always at the forefront of adopting new clean technologies. The Northeastern states, like Connecticut and New York, are beginning their deployment of power for their renewable

portfolio standard programs. Canada, and in particular Ontario, is pursuing green energy solutions as part of their broader move away from dirty coal-fired power. In the Southeastern states, we see utilities that are looking at their options to meet their renewable standards. The Southeast has very limited wind resources, and because of the prevailing rates of power, which are very low, solar power ends up being a very high over-market solution from a cost standpoint for that marketplace. So utilities are looking at our

products as a more cost-effective alternative versus other options to meet their RPS goals. In Asia, it's the national RPS that was recently passed by South Korea that represents probably the biggest single geographic opportunity for us in the near term, with the potential to drive large-order flow for our business. And then lastly, Europe is a market that's really untapped; it represents another growth area for us. So really slicing the market from two directions, one is geographically, with our focus being on parts of Asia, Europe, the Northeastern U.S. and California, and then vertically looking at those vertical segments, like wastewater, and food and beverage processing, the natural gas distribution system and the utility-scale applications.

TWST: What are the biggest risk factors that you're currently facing and how are you and your team preparing to deal with those risks?

Mr. Brdar: The biggest risk for us, like many businesses, is just the general economic environment and customers' access to capital and sources of project financing. And many municipal customers have been slow to move forward as they assess the reduced tax revenues in their districts and their ability to spend money on capital projects. That's certainly been constrained in the last 12 months to 18 months, but we're seeing certain projects move forward, I think, as they've gone through their capital appropriation and planning process. They have a lot of projects in our pipeline, particularly in places like California, where the municipalities will be looking to put in our units as a way to just control their overall project economics, power economics, and take advantage of the fact that there are some pretty good incentives out there for facilities, like wastewater treatment facilities.

On the commercial side, we're finding that there is really an improved lending environment that's really started to turn this year for projects that our customers need to fund. There is a lot of engagement now with the financiers looking at the projects. We're looking to do either at the state level or with commercial customers, and fortunately for us, we're not really dependent solely on the U.S. market to be successful, since we have other global markets like South Korea that have driven some significant opportunities and order growth for us. So for us, it's really been to focus on those markets that are delivering orders, like South Korea, as we allow the natural cycle of the credit markets to return to a healthier condition here in the U.S.

TWST: What's the current status of your DOE Loan Guarantee Program applications?

Mr. Brdar: We actually received our Phase I approval for 27 megawatts of projects that we had submitted. Those projects are worth over \$100 million of business to us. In the DOE Loan Guarantee Program, it's really a two-step process. The Phase I, we've received that approval. Phase II now is to provide some additional documentation on the projects, such as an independent engineering report and a credit rating specific to the project. That material is being put together and we're going to very shortly be submitting those Phase II applications to the Department of Energy. What we understand is it's about a 30- to 60-day process in which they will evaluate the additional documentation and give us notification of whether we are approved under the Phase II, at which point we will negotiate the term sheets for financing and hopefully move into execution of the projects. So far, we're doing very well in that program and we hope to actually see a favorable outcome all the way through the process.

TWST: Between that, what's going on in California and the things you talked about in Korea, what would you say among these few different developments is the single greatest opportunity for your company this year?

Mr. Brdar: For FuelCell Energy, it's the opportunity to participate in utility-scale deployment of our projects in multiple markets around the world. Utility-scale projects have the ability to drive unprecedented volume, contributing significantly to our growth, provide sales volume that will support continued cost reduction and ultimately drive us to profitability. We've now been selected or, in some cases, already awarded utility projects in Connecticut, California, South Korea, and we're the only fuel cell company in the world that can make that claim.

TWST: In summary, what are the top reasons that an investor would want to take a closer look at FuelCell right now?

Mr. Brdar: FuelCell Energy is really uniquely positioned in the marketplace. We're the only company with megawatt- and multimegawatt-class fuel cells. Our fuel cells are generating power at over 50 locations worldwide and have produced over 450 million kilowatt hours of power using a whole variety of fuels, like renewable wastewater gas, biogas from beer and food processing, as well as natural gas and other hydrocarbon fuels. So with a product with an established track record, we're partnering with world-class companies for our products, companies like POSCO, Enbridge, Chevron and others. We've been heavily focused on reducing product costs, and in fact, we've reduced our costs over 60% in the last few years. So our products are increasingly competitive in the marketplace with traditional solutions, and we have the installed manufacturing capacities, the support of our supply chain, our service team, and the infrastructure to actually be able to support rapid growth and continued capture of the market share for us.

TWST: Thank you. (MES)

R. DANIEL BRDAR
CEO & Chairman
FuelCell Energy, Inc.
3 Great Pasture Road
Danbury, CT 06813
(203) 825-6000
(203) 798-2945 — FAX
www.fuelcellenergy.com
e-mail: info@fce.com