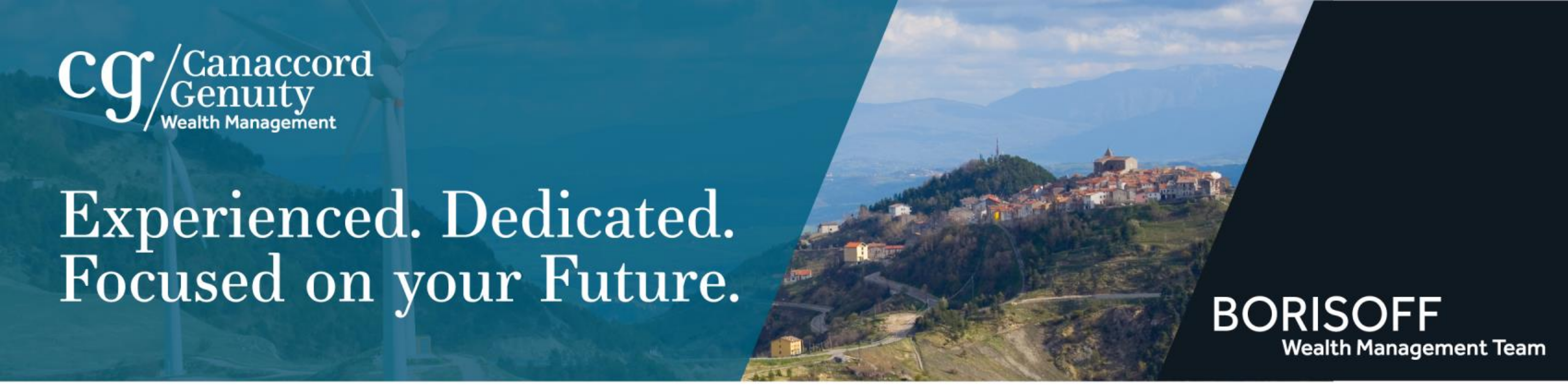

FuelCell Energy (FCEL) "B" Shares: Recent Events & Outlook – June 25th, 2019

FCEL's Series B Cumulative Perpetual Preferred Shares ("B" shares) traded down to the $50 range in early June (from $155 on May 31st) on market reaction to corporate filings that the company has gone into a "restructuring" mode. This news was not a surprise as FCEL has been dealing with increasing "fallout" from prior corporate decisions to issue two series of "floorless" Preferred Shares – the "C" and "D" shares. On June 25th the "B" shares closed at $71 per share (face value is $1,000).

I expect to see FCEL's "B" shares bounce back to the $150+ range over the next few weeks – and then to significantly higher levels on a wide variety of different scenarios.

The referred to "fallout" above has been increasing pressure on FCEL's common share price due to the agreed to redemption terms of the "floorless" "C" and "D" shares, disillusioned common shareholders, and the company being effectively cut-off from raising additional cash via the equity markets over the last few months. This has led to increasingly "tight" finances – and FCEL's senior secured lender (Hercules Capital) accelerating the repayment of the outstanding balance owed to them (currently ~$13.5 million).

Equity financings are how FCEL has paid most of its bills since it went public in 1992 – so the fact that this "self-inflicted" problem resulted in the CEO being fired in early June was not a surprise. Two "restructuring officers" from Huron Consulting were hired by the Board of Directors to "fix" the immediate problem with the company's senior lender and overall finances, and to also take a broader look at FCEL's entire business model going forward. This was a positive development in my opinion.

FCEL's current management team is moving very fast, and is making significant progress, including a new $10 million licensing deal with ExxonMobil announced on June 12th. Also, FCEL's problem "floorless" preferred shares are now almost fully retired – with the outstanding balance down to $7.5 million as of June 17th.

FCEL's "B" shares are "senior" to remaining floorless "D" Preferred shares – and the company's common shares. There are variety of different scenarios where the "B" shares could be valued at a substantially higher level shortly – and up to $1,000 per share if the company is acquired. *This is not out of the question, as it is one of the possible outcomes given the company's current situation regarding its depressed valuation – and would have to be reviewed if a bid appears. The scope of work with the Huron Consulting executives also highlights this possibility (as disclosed in the FCEL's June 17th 10-Q).*

Based on my conversation with the Tom Gelston, FCEL's Senior Vice President – Finance and Investor Relations on June 19th, I believe that the company will likely be able arrange a new senior lending facility within a few weeks (larger and more flexible). Also, based on this conversation, my detailed review of all recently file disclosure documents, and corporate developments over the last 7 months, I believe FCEL is on the verge of replacing their Hercules credit facility. I also believe the company will be raising a

substantial amount of new equity capital, and will then retire the remaining "D" shares with cash, resulting in a full recapitalization of the company.

Note, the "B" shares have dropped on very low volume in June (9,090 shares or ~14% of the total "B" shares outstanding of 64,000 shares through June 24th) due in part I believe to the confusion and misunderstanding in the market as to where the "B" shares rank on FCEL's balance sheet, and the options that the company should have to fix its immediate issues. FCEL has been the subject of multiple negative articles recently on Seeking Alpha by the same author. While he has been correct in identifying issues with FCEL's "floorless" Preferred shares – and their impact on common shareholders - I believe that he has gone too far with his negative take on FCEL's "B" shares at current levels. I believe the company has various options to recapitalize itself in the short-term - and does have a viable path to a profitable business in the mid to longer-term.

FCEL's Path Forward

FCEL needs to repay the ~$13.5 million balance outstanding to their senior secured lender Hercules Capital (after directing $6 million from their ExxonMobil licensing deal to Hercules) by August 9th – replacing it with a larger and more flexible credit facility – and they need to raise some new equity capital. Possibly in the reverse order.

Note, if FCEL does not pay-off the Hercules facility off by August 9th, or does not raise additional capital by that date, FCEL will then need to negotiate another amendment with Hercules to avoid defaulting. If Hercules were to refuse an amendment and a default event was triggered it would then have additional negative consequences for FCEL with its other lenders – along with the "D" Preferred shareholders – and the senior "B" Preferred shareholders. The company would then likely file for Chapter 11 and restructure under Court protection. Note, if this were to happen I still believe the "B" shares would be valued at a substantially higher amount than they are today due to their "senior" position on FCEL's balance sheet regarding recovery values – in front of the remaining "D" shares and the common shareholders.

Recent Events & Additional Insight: New Management is Making Significant Progress

- ***June 17th, 2019: The company's "self-inflicted" problem with their two back-to-back "floorless" preferred share issues has been significantly resolved (retired) – and the company should now have a much easier time raising additional capital. See more on this issue below.***

- ***June 12th, 2019: FCEL announced a $10 million licensing deal with ExxonMobil*** *– with $6 million being used to reduce their Hercules Loan facility to ~$13.5 million.* Note, this was a "non-exclusive" deal with ExxonMobil – and protects ExxonMobil's investment to date in their joint work in case there is a change of control of FCEL. The deal is primarily related to utilizing molten carbonate fuel cells to concentrate CO2 from natural gas plants. According to Tom Gelston FCEL's current Joint Development Agreement (JDA) with ExxonMobil expires at the end of this year – and the next step with ExxonMobil is expected to be a "JDA2". This might include a full commercialization agreement. FCEL's big upside on this relationship would be to supply FCEL powerplant equipment to ExxonMobil's future carbon capture projects.

  Note, additional licensing deals are also possible re: FCEL's hydrogen technology (i.e. Tri-Generation project with Toyota), their Solid Oxide Fuel Cell (SOFC) technology (i.e. current project at NRG Energy's facility being tested), current work with Exelon (EXC-US) exploring the conversion of Nuclear plants to the production of hydrogen utilizing FCEL SOFC technology (this project has recently passed the initial "Go/No GO" decision point). FCEL also has a long list of other technology which they might be able to negotiate attractive license terms.

- ***FCEL may be able to free up to $17 million shortly with a sales-leaseback deal for their 3.7 MW Triangle Street project.*** *This is the company's 1st High Efficiency SureSource 4000 and is fully completed now and generating electricity revenue for the firm. FCEL is currently trying to secure a Power Purchase Agreement for this project which should then facilitate getting a sales-leaseback deal done. I expect this project would be sold for ~$24 million with the buyer receiving back $7 million via the federal Investment Tax Credit (ITC) and FCEL freeing up ~$17 million of new cash back on their balance sheet.*

- ***FCEL has other power plant assets that are well advanced, and expected to be operational over the next few months. While FCEL's original intention was to retain these projects on its balance sheet – they could also be sold at any time to free up additional cash if required.*** *These options are likely being closely examined by the Huron execs. As per FCEL's June 17th 10-Q: FCEL's 2.8 MW Tulare California BioMAT project is expected to be fully completed by the end of FCEL's Fourth Quarter 2019 (October 31st), and their 5.0 MW Bolthouse Farms project (Campbell's Soup) is targeted for completion by end of their First Quarter 2020 (January 31st, 2020). Additionally, FCEL's 7.4 MW sub base project is now targeted for the end of FCEL's Second Quarter 2020. All of these projects are well advanced with construction financing in place. Longer-term, FCEL has 40 MW of LIPA projects, 22 MW of recently signed Connecticut projects, their Toyota hydrogen project along with their recently announced San Bernardino, California project (more below).*

- ***May 13th, 2019: FCEL closed on the purchase of the 14.9 MW Bridgeport Fuel Cell Park for $35.4 with $25 million of senior financing split between Fifth Third Bank and Liberty Bank and $6 million of subordinate financing provided by the CT Green Bank.*** The rate on the bank financing was 5.09% (after swap agreements) and the rate on the subordinate financing was 8.00%. *This deal significantly advanced the company's goal to retain 60 MW of revenue producing power plant assets on their balance sheet – taking the total to 26.1 MW*. ***This can be viewed as a very positive sign in regard to major banks signing off on FCEL technology recently with a long-term financing commitment after extensive due diligence on the technology***.

- ***April 30th, 2019: FCEL signed a new 20-year Power Purchase Agreement with the town of San Bernardino, California, for a 1.4 MW project to convert biogas from the town's wastewater treatment plant to renewable energy***. *A very positive sign – as this town was willing to enter into a 20-year deal with FCEL – even though the company has been subject to substantial negative press in recent months.*

- ***March 4th, 2019*: *FCEL announced a new $23 million construction finance facility from Fifth Third Bank for the company's 7.4 MW sub base project in Connecticut*.** Fifth Third has also given a commitment for permanent financing for this project once it is built. ***Again, a very positive sign in regard to major bank signing off on FCEL technology - recently - with a long-term financing commitment.***

- ***December 26th, 2018: FCEL announced a new construction loan facility for $100 million from Generate Capital (expandable to $300 million under certain conditions), to allow them to execute on their $1.3 billion+ project pipeline.*** This again, was a very positive sign as this group is a significant renewable energy lender that is willing to finance FCEL technology over the long-term with a large financing commitment. ***I would not be surprised if Generate Capital becomes directly involved with putting some money directly into FCEL shortly – or facilitates a large capital injection from another company in regard to recapitalizing FCEL.***

- ***FCEL has been working with Huron Consulting since March 15th (June 17th 10-Q). Tom Gelston confirmed that Huron has provided input into the recent decision to lay off 135 people in April – and has been involved in recent financial decisions (i.e. closing of the $35.4 million Bridgeport Fuel Cell Park acquisition).*** The fact that the Board of Directors formally installed two senior Huron consultants as "Chief Restructuring Officer" and "Deputy Chief Restructuring Officer" on June 2nd and fired the company's CEO on June 5th looks like a move to clean up the company, and restore investor confidence, possibly prior to a large new investor getting involved. Note, along with signing off on the *"floorless"* Preferred share issues, the prior CEO failed to get the situation with POSCO Energy resolved after a 3 ½ year impasse – and has separately and additionally destroyed investor confidence with multiple missed important and expected milestones over the last few years.

- ***FCEL's current Interim President Jennifer Arasimowicz is much more action oriented according to Tom Gelston (FCEL's Senior VP Finance and IR) – and has an immediate goal to get the situation with POSCO Energy resolved ASAP*** - ***apparently with the blessing of the two Huron restructuring officers.*** *She was previously the FCEL's General Counsel and is now also the company's Chief Commercial Officer and Chief Legal Officer. She is also interested in doing more smaller 'behind-the-meter' projects to generate product sales – something that was highlighted in the recent disclosure documents. These projects would be in addition to the larger, utility-scale projects that the previous CEO was more interested in pursuing.*

FCEL's Problem "Floorless" Preferred Shares – Series "C" and Series "Ds" (Now Almost Fully Retired)

FCEL's common shares have been hammered progressively lower in recent years because of the company's ill-advised decision to raise capital the last two times via two issues of "floorless" preferred shares – the $33.5 million Series C Preferred shares issued in September 2017 and then the $30.7 million Series D Preferred shares issued in August 2018. Both of these preferred share issues would have been "ok" if the company had delivered on expected milestones in a timely fashion. However, the company missed most expectations by a large margin – and then had to start paying back both issues to the original investors via bi-weekly payments in common stock. The Series "C" Preferred issue was originally expected to be fully retired by December 2019, and the Series "D" by April 2020. The formula used to determine the number of shares required to make each payment is based on a discount to the current market price. The bottom line is that the lower the share prices goes the more shares must be issued – with additional share penalties as the stock price dropped below certain thresholds. The structure of these "floorless" issues also encourages the holders to sell their common shares quickly - to lock-in gains, and also to remain below ownership level restrictions - as the owner of these issues were prevented from owning more than 4.99% of the company's outstanding common shares at any one time. This is also where I believe a lot of the short-selling pressure has originated from over the last few years.

FCEL's plunging share price resulted in the company's required 1-12 share consolidation on May 9th to maintain their NASDAQ listing. ***More importantly, the big questions of: What exactly is the outstanding balance of the Series "C" and Series "D" Preferred shares? And, how many additional common shares will be required to be issued to the holders to retire them? has effectively prevented FCEL from raising new cash via equity sales on the financial markets. It was not until the June 17th 10-Q filed a few days ago that the market was informed that the Series "C" shares have been fully retired, and the remaining outstanding balance of the "D" shares had been reduced to $8.4 million as of June 13th.***

Tom Gelston confirmed that that another $900,000 of the "Ds" was retired on June 17th – so there is now a much more manageable $7.5 million remaining. Based on FCEL's last 10-Q there was 27.4 million shares outstanding as of June 13th – and with retirement of a further $900,000 of the "Ds" this week there should now be ~31 million shares outstanding.

The retirement of the remaining "D" shares is expected to occur every two weeks – although the holders can accelerate payments - as they had done recently or to defer payments to the end of the term. FCEL also has *the option to pay-off the remaining "D" shares with cash (face value plus 8%) which may be possible if the company can arrange a new larger and more flexible credit facility (this would be the "preferred" option to minimize additional common share dilution at depressed prices).*

If FCEL were to pay the remaining "D" shares off with the common shares at $0.20 (the June 21st closing price) - they would have to issue another 37.5 million shares – and the company's implied market cap would be ~$13.7 million (assuming a total of 68.5 million shares outstanding). If FCEL were to pay the balance off at $0.50 per share they would need to issue another 15 million shares – and the company's market cap would ~$23 million with 46 million shares outstanding. ***While we do not know how many shares they need to issue still, and at what price, the fact that outstanding balance has been reduced to $7.5 million should no longer prevent an additional equity issue in my opinion***.

After FCEL's recent 1-12 share consolidation on May 9th the company had *"authorized shares"* of up to 225 million shares available. Therefore, given the ~31 million outstanding today, and possible 15 to 37.5 million shares required to pay-off the remaining "D" shares (as per the above example) the company would have somewhere in the 150 to 170 million range of additional shares available to issue and after setting aside shares for employee stock plans and other items. FCEL also confirmed in their June 17th 10-Q that they still had $42 million remaining of their $50 million *"at-the-market"* financing facility – which they can potentially use to raise cash via equity sales on the market - when permitted – and depending on the stock price.

Note, FCEL's common share price is currently significantly depressed – and was trading a price more than 10 times higher a few weeks ago after their 1-12 share consolidation on May 9th. It could trade to significantly higher levels on variety of upcoming possible announcements: i.e. - that they have freed up significant cash via a sales-lease back agreement regarding their Triangle Project, sold another project, negotiated additional technology licensing deals (similar to what they just did with ExxonMobil), a new deal with POSCO Energy – or a large number of other possibilities. FCEL could also announce a new recapitalization transaction at any point – and pay-off the remaining cash owed to Hercules Capital, pay-off the remaining "D" shares for cash, and then possibly start to buy back the "B" shares on the market – in addition to leaving the company with significant new working capital.

FCEL's Cumulative Perpetual Preferred "B" Share: The "Senior Advantage"

FCEL's "B" were issued in 2004 at $1,000 per share and pay cumulative dividends of $50 per year. The "B" shares are "senior" to the remaining Series "D" shares, and senior to the common shares which the "D" shares are still being converted into. The "B" shares rank near the top of FCEL's balance sheet regarding recovery values if the company were to be wound down (which I am not expecting).

The "B" shares have a "Liquidation Preference" of $64 million ($1,000 per share) which must be fully satisfied - along with any unpaid dividend prior to the "Junior Classes" - the "Ds" and the common share receiving anything. This includes the last May 15th "B" dividend payment which was not paid.

> *"The holders of Series B Preferred Stock are entitled to receive, in the event the company is liquidated, dissolved or wound up, whether voluntarily or involuntarily $1,000 per share plus all accumulated and unpaid dividends to the date of that liquidation, or winding up ("Liquidation Preference").*
>
> *– FCEL 10-K, October 31st, 2018 and confirmed in their June 17th 10-Q – along with seniority ranking*

Observations and Conclusions

FuelCell Energy (FCEL) has survived on the public market since 1992 by its ability to tap the public equity markets from time-to-time in order to raise cash to pay the bills until it becomes a profitable and self-funding operation. In recent years there have been multiple project award opportunities which the company lost out on along with other setbacks (i.e. Beacon Falls Energy Park miss, and the 3+ year dispute with POSCO Energy in South Korea). *FCEL has also had some big "wins" in recent years - starting in 2017 with the 40 MW of awards secured from the Long Island Power Authority (LIPA) in New York – and then 22 MW of awards secured in Connecticut in 2018 and now under contract. Currently, FCEL has a contracted backlog of approximately $1.3 billion – which is expected to be closer to $2 billion once two of the LIPA awards are fully contracted. This backlog and project awards finally provide a clear path to cash flow breakeven for the company and then profitability – assuming that FCEL resolves its short-term financial challenges successfully – which I expect.*

A few years ago, FCEL changed its business plan, to one of having a goal to retain power plant projects on their balance sheet. Their immediate goal was to hit a retained power plant portfolio of 60 MW – as that level the company is expected to achieve cashflow break-even – with higher levels expected to lead to sustained profitability. ***As of today, FCEL has 26.1 MW of confirmed power plant assets on its balance sheet, and another 83 MW of projects in its development pipeline (11.5 MW expected to be operational within the next few months).***

FCEL has recently received significant new interest from various financial institutions that see the value of their product offering and their project pipeline regarding its financial return profile. Recent new financing partners (*Generate Capital, Fifth Third Bank and Liberty Bank have committed $148 million of financing in the last 6 months – and possibly up to $348 million regarding the Generate Capital facility).*

With FCEL's problem "D" shares now reduced to $7.5 million as June 17th, and a number of possible pending developments which could bring some new cash into the company shortly, a successful restructuring and refinancing looks very likely in my opinion. FCEL's recently signed new construction financing partner Generate Capital which has committed $100 million so far – and possibly $300 million - is one possibility. I would be surprised though if there are no other groups crunching the numbers due to the size of FCEL's current contracted project pipeline – much of it with financing in place - plus the large opportunity in front of the company in adjacent markets.

FCEL's June 17th, 10-Q confirm that the company is exploring all possible options available to it - including possibly selling the entire company (as per disclosure in the Huron Consulting term sheet). FCEL appears to be a natural "fit" for rival fuel cell company Bloom Energy to acquire in my opinion – which is one scenario where the B shares could be worth $1,000 per share quickly.

Also, POSCO Energy, which has the largest installed base of FuelCell Energy based powerplants in the world, will require approximately 300 MW of stack replacements over the next ten to fifteen years based on FCEL technology. POSCO Energy was rumoured to have been fighting to get access to FCEL's "advanced technology" for the last few years – a reason often cited for the relationship breakdown between the two companies in recent years. This unresolved issue is also a major reason why many investors "gave up" on FCEL in recent years. Note, earlier this year FCEL management stated that they had been back and forth to South Korea multiple times in 2019 trying to find a solution to this issue – and they were hoping to have it sorted out within a few months. Interestingly, there has recently been a few very large fuel cell projects announced in South Korea – some of them specifically designed to generate hydrogen as a byproduct – without the equipment suppliers being named. These projects seem to be designed around current FCEL technology – and are possibly on hold until this issue with POSCO Energy is fully resolved. *I would not rule out POSCO Energy reentering the fray at some point*. ***FCEL's June 17th 10-Q filing confirms that the "We [FCEL] continue to evaluate all of our options with regard to our relationship and agreements with POSCO Energy."*** There were also unconfirmed rumours that the company's interim President Jennifer Arasimowicz was in South Korea the week of June 10th – which would not be a surprise given recent events.

Finally, based on my understanding of FCEL's current financial situation there appears to be enough power plant project assets and other assets on FCEL's balance sheet (i.e. the $10 million they just generated for a "non-exclusive" deal with ExxonMobil) available to result in a significant recovery for the "B" shares in even a worst-case scenario – and *after all secured lenders and any higher-ranking claims are satisfied*.

> *FCEL's common share price has always been extremely volatile – which I expect to continue going forward. It is appropriate only for risk tolerant investors, or for the "aggressive" or "speculative" portion of your portfolio. While I have recommended FCEL to clients in the past, current exposure to the company is primarily via the company's "B" shares where suitable. I currently hold a position in the company's common shares, and the "B" shares - along with direct family members. I have also bought and sold options on FCEL in the past – and currently hold a small position. I have recently added to positions in both FCEL's common share and their Preferred "B" shares and may buy or sell positions in the future.*

As always, please do not hesitate to contact me if you have any questions.

Sincerely,

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