
HAMILTON CLARK

NREL 22nd Industry Growth Forum

Successful Financial Strategies in a Credit-Constrained World

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Hamilton Clark & Co. is a registered broker-dealer with the Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority (FINRA)

Hamilton Clark & Co.

- Investment banking and government advisory
- Registered SEC broker-dealer and FINRA-member firm
- Focused completely on energy technology companies
- Private equity, M&A, public offering, grants and loan guarantees
- Offices in Washington, DC and Houston, TX
- Founded in 1989, sold to PwC in 1997, restarted in 2003
- Completed 70+ assignments (\$1,000,000 to \$30,000,000)

Financing Strategies

- **Private financing** (Regulation D, Section 4.2 exemption)
 - Seed, venture, strategic, carbon, private equity, project finance

- **Public financing** (registered offering)
 - DPO, reverse merger, TSX-V, London AiM, NASDAQ

- **Government financing**
 - DOE/USDA (ARPA-E, SBIR, FOA grants, loan guarantees)
 - State (Texas TETF, Michigan MEDC, New York NYSERDA)
 - Canada SDTC

- **Merger or sale of the company**

Case Study – Private Financing, Strategic: Terrabon 2009

- Series A financing to finish “de-risking” its technology
 - Renewable gasoline conversion process using MSW feedstock
 - Required about \$5 million to build and operate semi-works plant
 - Venture financing difficult due to timing (post meltdown)
 - Other biofuels technologies were financed in 2007/2008
 - NREL 21st Industry Growth Forum presenter (2008)

- Valley of death issues related to project roll-out
 - Really wanted financing partners to help build projects

- Decision to close a financing with two strategic investors
 - Valero Energy (*NYSE:VLO*): co-locate at Valero refineries
 - Waste Management (*NYSE:WM*): feedstock supply at landfills
 - Strategic investors understood the technology commercialization

* HamiltonClark has received investment banking fees and owns common stock warrants in Terrabon Inc.

Case Study – Public Financing: Clipper Windpower 2005

- Capital intensive business plan (turbine assembly and development)
 - VC financing good to start the business, not for development
 - Serious valuation issue between founders and financiers
 - CEO had experience in the securities industry
 - CEO had previously developed and sold a wind technology company
 - NREL 17th Industry Growth Forum presenter (2004)

- Year-end 2004 financial results:
 - Revenues: \$10.4 million
 - Net loss: \$(3.9 million)
 - Cash: \$3.2 million
 - Total assets: \$14.2 million
 - Financings: \$28.8 million

Case Study - London AiM Offering: Clipper Windpower

- September 2005, IPO on the Alternative Investment Market (AiM)
 - Proceeds to the company: £59.5 million (\$107 million)
 - Shares offered: 34.2 million shares
 - Shares after offering: 95.2 million shares
 - Price per share: 190 pence
 - Market capitalization (post): £180.8 million (\$326 million)

- Market capitalization June 2007: \$869 million

- AiM was the correct solution for the company
 - Given its need for large amount of cash
 - Inability to conform its valuation to the venture or private equity market
 - Need for follow-on capital

Case Study – TETF Financing: Optisense Network 2008

- Smart grid developer of optical sensing for voltage, current and power
 - Supplies smart grid components to utilities
 - Measurement of voltage, current and power without touching live wires
 - Likely major recipient of orders under recent \$3.4 billion smart grid grants
 - Long lead time in utility procurement
 - Difficult financing climate post October 2008 meltdown

- Texas Emerging Technology Fund grant
 - \$1.5 million grant to Optisense
 - Commercialization of electro-optical voltage sensor technology
 - General terms of TETF grants are that the grant is booked as a loan
 - Converts to equity on the same terms as the next equity financing
 - \$118 million to 94 companies, and \$148 million to Texas universities

- Government financing can be very lucrative for investors

* HamiltonClark has received investment banking fees and owns common stock warrants in Optisense Network Inc.

Case Study – M&A: Solectria Corporation 2004

- World leader in electric and hybrid electric drive technology
 - 2003 revenues of \$5,000,000, breakeven cash flow
 - Large strategic investor had invested \$11 million in 2000
 - Seeking \$5 to \$10 million on a \$15 million pre money valuation
 - Very difficult period for energy technology financing
 - NREL 14th Industry Growth Forum presenter (2001)

- Strategic investors: can we buy the company?

- Azure Dynamics Corporation (TSX:AZD) offered best proposal
 - Due diligence suggested excellent fit of business plan and locations
 - Complicated structure to spin-off solar inverter division to CEO
 - Tax free stock-for-stock at \$16 million valuation
 - AZD stock went to a premium and valuation increased substantially

* HamiltonClark has earned investment banking fees from Solectria and owned common stock of Azure Dynamics Corporation

Government Financing Programs

- Obama administration funding under the Recovery Act
 - Renewable energy goals supplemented by grant funding
 - Recovery Act has been a new source of capital
 - Special consideration given to job creation
 - Loan guarantee program (FIPP) jump started by the Recovery Act
- Need to understand the application process
 - FOA and loan guarantee applications are not a business plan
 - Cost share and funding the cost share are complicated issues
 - Form of applications are almost as important as content
 - Government “process” issues weigh heavily in decisions
 - Potential for a large financing (up to \$50 million for FOA 0000096)
- Need to understand negotiating final award (CRADA or TIA)

Four Takeaways

- **Financing *strategy* is very important**
 - Market climate: go where you can find the best reception
 - Business maturity and management experience
 - “You have to be in the market to be in the market”
- **Washington is the new Wall Street**
 - Next 4 to 8 years will see massive government financing of energy tech
 - Grants, direct loans, loan guarantees, tax credits, subsidies, investment
 - Companies need special skills and support to attract this capital
 - Treat applications like you would an S-1 registration statement
 - Multiple sources (Federal, Agency, State, Municipal)
- **Carbon funds are a new source of private financing**
 - Blue Source, C-Quest, EcoSecurities, SCC, Camco, others
- **Treat M&A as if it were a financing strategy**

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