

## HAMILTONCLARK QUARTERLY

### **HamiltonClark EnergyTech Index™**

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The HamiltonClark EnergyTech Index™ was up 34% during January-December 2005, outperforming both the NASDAQ and S&P500. The Index continues to correlate well with oil prices.

### **The Money Chase**

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With ten times more capital being sought by energy tech companies than available from institutional investors, there is intense competition for limited dollars. Those unable to raise capital may look at an M&A deal or resort to friends and family. Companies with professionally prepared and organized financing plans have a better chance of surviving this Darwinian outcome.

### **AiM Update**

Page 8

It was a great year for energy tech companies on AiM. Almost £415 million was raised, with three unusually large financings totaling £264 million. Will energy tech continue to attract investor attention? Should U.S. energy tech companies look to the London market to raise the next round?

### **Private Equity Primer**

Page 11

As an SEC-registered broker-dealer we are constantly being asked "how do I actually raise capital privately in the U.S." This note offers our best advice to early-stage energy technology executives about the policies and practices of the U.S. private placement market.

John J. McKenna  
john.mckenna@hamiltonclark.com

Himesh Dhungel, PhD  
himesh.dhungel@hamiltonclark.com

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## Challenging Assignments ... Experience counts.

Over the years, our Managing Directors and predecessor firms have undertaken complex investment banking assignments for energy and energy technology firms. And we delivered.

Client	Transaction	Client	Transaction
ABB	Investment	Maine Public Service	Shareholder Value
Aker Maritime	Valuation	Marathon Oil	Advisory
American Ecology	Fairness Opinion	McCormick Energy	Private Equity
Arco (North Slope)	Production Payment	McCormick Energy	Sale
Arco (U.S.)	Loan	McCormick Oil & Gas	Senior Notes
Atmos International	Advisory	McCormick Oil & Gas	Exchange Offer
BNOC (U.K.)	Project Finance	McRae Oil & Gas	Exchange Offer
Cal Resources	Acquisition	Occidental Petroleum	Loan
Callon Petroleum	Private Equity	Ontario Hydro Services Corp	Shareholder Value
Callon Petroleum	IPO	Petro Alliance	Merger
CalResources	Financial Advisory	Petrobras (Brazil)	Commercial Paper
Castle Peak Power (H.K.)	Project Finance	Petrolane Partners	IPO
Computalog	Merger	Petroleum Geo Services	Acquisition
Dacon Corporation	Sale	Petroleum Information	Merger
Dashiel Corporation	Sale	Petroleum Information	Placement
Eastern Group	Acquisition	Prinos Oil (Greece)	Project Finance
Ecology	Fairness Opinion	Proler International	Bank Debt
Enertec Corp.	Merger	Proler International	Asset Sale
Entex	LBO	Puget Sound Energy	Spin Off
EON AG	Acquisition	RETX.com	Private Equity
Esso InterAmerica	Bonds	Rotating Sleeve Engine Technology	Principal Investment
Esso Malaysia	Project Finance	Ruska Instrument	Sale
Exxon Finance	Notes	Saxon Oil & Gas	Merger
Frontera Resources	Advisor	Saxon Oil & Gas	Exchange Offer
Gaia Technologies	Sale	Schlumberger	Acquisition
Giant Industries	IPO	Securad Inc.	Advisory
Giant Industries	Merger	Shell Oil	Medium Term Notes
GNI Group	Sr. Sub. Notes	Silvatech Industries	Advisory
GNI Group	Acquisition	Solectria Corporation	Sale
GPS Technology	Merger	Solectria Corporation	Spin Off
GX Technologies	Private Equity	STM Power, Inc.	Private Equity, Recap
Hadson Corp.	Sale	Sunshine Mining	Subordinated Debt
Hadson Europe	Merger	Tectonic Energy	Merger
Harken Energy	PIPE	Thor Ventures	Merger
Holt Oil & Gas	Merger	Timoney Technology Ltd.	Advisory
Hydrotech	Sale	Tobin International	Sr. Notes
Insource Technology	Convertible Notes	Trans Texas Gas	Debt Refinancing
Kowloon Electricity (H.K.)	Project Finance	Unocal Corporation	Acquisition
Land & General	Acquisition	WEDGE Dia-Log	Acquisition

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# HAMILTONCLARK

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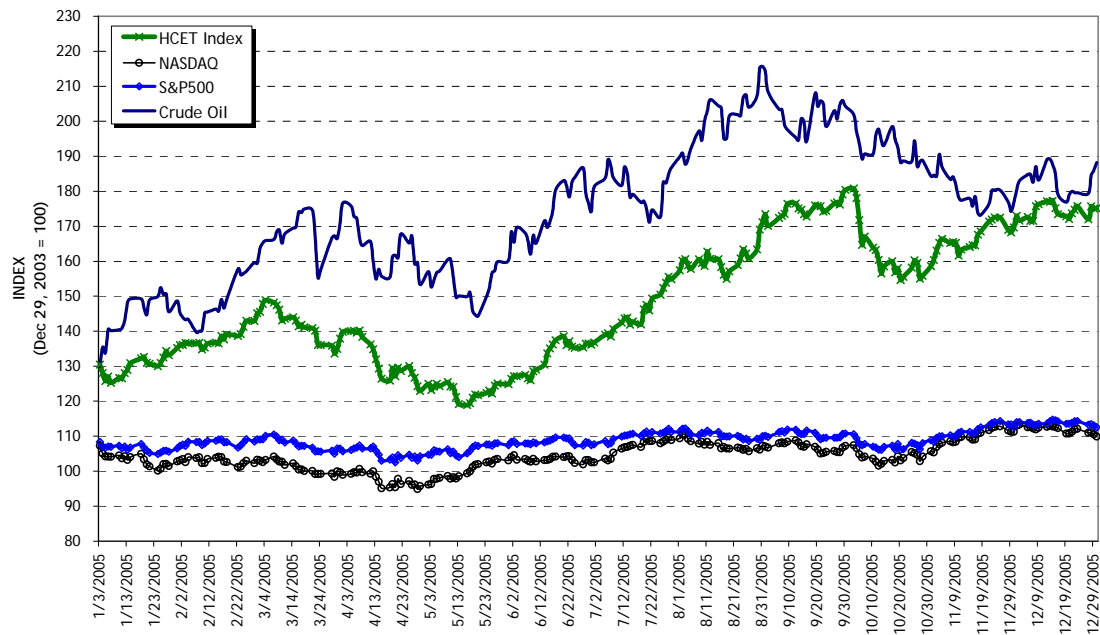
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# HamiltonClark EnergyTech Index™

Himesh Dhungel, PhD

*The HamiltonClark EnergyTech Index™ rose by 34.2% in 2005, significantly outperforming NASDAQ and S&P500 indices. The Index continues to track oil prices, even though oil prices have stabilized after peaking in August 2005. Renewable Energy and E&P segments performed particularly well. Will the Index continue to track oil prices or gravitate towards the burgeoning renewable energy segment of the market?*

HAMILTONCLARK ENERGYTECH INDEX™  
(As of December 30, 2005)



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Technology is our key to solving the demand-supply imbalance in the energy market. With higher oil prices, back-stop technologies start becoming economic and new methods/technologies are developed to discover, extract, convert and consume fossil fuels. The stock market is a fairly good barometer of this phenomenon, as demonstrated by the HamiltonClark EnergyTech Index. With rising oil prices, the E&P technology sector has experienced significant growth and so have renewable energy technologies such as wind, solar and biofuels.

## E&P Technologies

The Index has 15 companies that represent E&P technologies – companies that provide technologies to analyze data, help find and extract new oil and gas. In 2005, all but one experienced double or triple digit increases in their share prices. The winning stocks exhibited

strong correlation with oil prices. The E&P component of the Index rose by 68.6% in 2005. The total market capitalization of companies in this segment was approximately \$14.8 billion at the end of 2005. As long as oil prices are at current levels or rising, the rally is expected to continue.

### **Renewable and Sustainable Energy**

The Index currently has eight companies representing biofuels, wind, solar and wave technologies. Of the eight companies, three had lackluster performance, but overall, this segment rose by 71.7%, out-performing even the E&P segment. In general, the renewable energy sector has benefited from higher oil prices as well as lucrative government incentives, particularly in Europe. Whether this sector can continue its current growth is an open question, especially if government incentives are removed or reduced. As long as oil prices are at current levels or rising and government incentives continue, the sector is expected to perform well.

### **Energy Intelligence and Optimization**

Five companies that represent technologies for energy measurement, intelligence and information are included. Three out of five companies experienced high double digit growth while two had negative growth. Overall, this segment grew by 18.3% in 2005. Technologies represented in this segment perform particularly well in a high energy price environment. However, since these technologies generally help reduce consumption by providing information to manage and control energy, they should perform well even if oil and gas prices were to fall from today's levels.

### **Clean Technologies**

Technologies that reduce pollution, are efficiency-enhancing, or produce clean fuels from traditionally polluting sources such as coal are included in this segment. There are 11 companies in this segment and it grew by 18.8% in 2005. Shares of eight out of 11 companies rose in 2005. Clean technologies should benefit from stricter environmental regulations and the 2005 Energy Bill, which promotes clean coal technologies.

### **Power Generation and Power Quality**

This segment had a relatively modest run in 2005, with a 6.5% growth. There are 30 companies representing alternative power generation such as microturbines and fuel cells, to power conversion, quality and uninterruptible power supply technologies. This sector shows the lowest correlation with oil prices, but is likely to be influenced by electricity supply situation, which at the current time appears to be adequate.

The list of companies in the Index and individual performances of each segment follows.

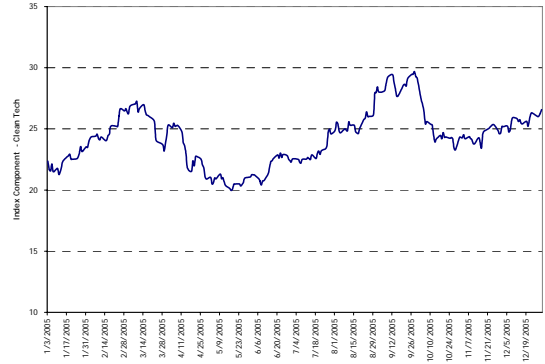
COMPANY AND SEGMENT	Ticker	Share Price (\$/Sh.)		Percent Change	Mkt Cap (\$ Million)
		3-Jan-05	30-Dec-05		
<b>POWER GENERATION, POWER QUALITY, CONTROLS AND STORAGE</b>					
1 Active Power	ACPW	4.49	\$ 3.85	-14.3%	\$ 187.7
2 American Superconductor	AMSC	14.30	7.87	-45.0%	258.1
3 Arotech Corporation	ARTX	1.61	0.37	-77.0%	33.2
4 Artesyn Technologies	ATSN	11.13	10.30	-7.5%	409.3
5 Ballard Power	BLDP	6.58	4.18	-36.5%	471.0
6 Beacon Power	BCON	0.87	1.81	108.0%	89.7
7 C&D Technologies	CHP	16.85	7.62	-54.8%	193.3
8 Capstone Turbine	CPST	1.76	2.99	69.9%	255.3
9 Cherokee International	CHRK	8.90	4.61	-48.2%	88.7
10 Distributed Energy Systems	DESC	2.48	7.58	205.6%	279.0
11 Electro Energy Inc.	EEEE	10.40	4.54	-56.3%	74.7
12 Energy Conversion Devices	ENER	18.68	40.75	118.1%	1,222.4
13 FuelCell Energy	FCEL	9.90	8.47	-14.4%	409.7
14 Hydrogenics	HYGS	4.69	3.13	-33.3%	286.9
15 Intermagnetics General	IMGC	24.83	31.90	28.5%	900.2
16 ITM Power	ITM	1.26	2.52	100.4%	232.6
17 Magnetek	MAG	6.75	3.25	-51.9%	65.3
18 Maxwell Technologies Inc.	MXWL	9.62	14.17	47.3%	234.4
19 Mechanical Technology Incorporated	MKTY	5.92	2.80	-52.7%	86.6
20 Medis Technologies	MDTL	17.78	14.71	-17.3%	407.4
21 PECCO II	PIII	1.17	1.79	53.0%	38.7
22 Plug Power	PLUG	5.95	5.13	-13.8%	440.0
23 Power-One	PWER	8.65	6.02	-30.4%	514.3
24 Powerwave Technologies	PWAV	8.27	12.57	52.0%	1,386.9
25 SatCon Technology	SATC	1.96	1.50	-23.5%	50.3
26 Turbo Genset	TGN	0.22	0.24	10.4%	41.8
27 Ultralife Batteries	ULBI	19.05	12.00	-37.0%	173.9
28 Valence Technology	VLNC	3.29	1.54	-53.2%	138.1
29 Vicor Corp	VICR	13.46	15.81	17.5%	663.1
30 Xantrex	XTX	7.93	6.67	-15.8%	184.6
<b>CLEAN TECHNOLOGIES</b>					
31 Azure Dynamics	AZD	\$ 0.83	\$ 0.89	7.0%	\$ 139.3
32 Catalytica Energy Systems	CESI	2.29	1.05	-54.1%	19.0
33 Fuel Tech N.V.	FTEK	4.66	9.07	94.6%	183.4
34 Headwaters	HW	27.35	35.44	29.6%	1,473.1
35 IMPCO Technologies	IMCO	7.35	5.16	-29.8%	147.7
36 KFx, Inc.	KFX	13.63	17.14	25.8%	1,157.5
37 Millennium Cell	MCEL	1.25	1.31	4.8%	57.2
38 Quantum Fuel Systems Tech	QTWW	6.04	2.68	-55.6%	141.7
39 Rentech Inc.	RTK	2.07	3.81	84.1%	407.4
40 Syntroleum Corp.	SYNM	8.75	9.03	3.2%	501.5
41 UQM Technologies	UQM	2.60	3.87	48.8%	95.5
<b>ENERGY EFFICIENCY, INFORMATION, OPTIMIZATION</b>					
42 Allied Motion Technologies	AMOT	\$ 6.95	\$ 4.17	-40.0%	\$ 26.4
43 Badger Meter	BMI	30.10	39.24	30.4%	268.2
44 Echelon Corporation	ELON	8.15	7.83	-3.9%	313.4
45 Intergraph Corp	INGR	27.49	49.81	81.2%	1,432.9
46 Itron	ITRI	23.63	40.04	69.4%	992.6
<b>RENEWABLE ENERGY</b>					
47 Biofuels Corporation plc	BFC	2.53	1.53	-39.5%	68.9
48 Environmental Power Corporation	EPG	6.94	7.00	0.9%	51.9
49 Evergreen Solar	ESLR	4.17	10.65	155.4%	651.2
50 Gamesa Corp Tecnologica SA	GAM	12.88	15.12	17.4%	3,677.5
51 Ocean Power Technologies	OPT	1.44	1.41	-1.9%	72.6
52 Solar Integrated Technologies	SIT	2.30	3.90	69.5%	130.4
53 Spire Corporation	SPIR	4.63	7.45	60.9%	51.1
54 Vestas Wind Systems A/S	VWS	11.40	16.97	48.9%	2,968.9
<b>EXPLORATION &amp; PRODUCTION TECHNOLOGIES</b>					
55 Atwood Oceanics	ATW	\$ 50.00	\$ 78.03	56.1%	\$ 1,193.2
56 Bolt Technology Corp	BTJ	4.90	14.02	186.1%	76.2
57 Compagnie General de Geophysique	GGY	13.60	17.70	30.1%	1,046.9
58 Core Labs Nv	CLB	22.83	37.36	63.6%	974.2
59 Dawson Geophysical	DWSN	19.82	30.82	55.5%	230.0
60 Dril Quip Inc	DRQ	23.38	47.20	101.9%	833.7
61 Englobal Corp	ENG	2.87	8.40	192.7%	198.5
62 Hydril	HYDL	42.80	62.60	46.3%	1,477.8
63 Input Output Inc	IO	8.40	7.03	-16.3%	560.2
64 Oceanering Intl	OII	35.89	49.78	38.7%	1,332.7
65 Oil States Intl	OIS	18.60	31.68	70.3%	1,554.1
66 Petro Geo Adr New	PGS	20.67	30.99	50.0%	1,859.4
67 R P C Inc	RES	10.47	26.34	151.6%	1,130.4
68 Tetra Technologies	TTI	18.24	30.52	67.3%	1,059.0
69 Veritas Dgc Inc	VTS	21.86	35.49	62.4%	1,231.2
	Nasdaq	2152	2205	2.5%	
	S&P500	1202	1248	3.8%	
	AiM	1006	1046	4.0%	
	Crude Oil (\$/bbl)	42.1	61.0	44.9%	
<b>HamiltonClark EnergyTech Index™</b>		<b>130.5</b>	<b>175.2</b>	<b>34.2%</b>	
<b>SEGMENT PERFORMANCE</b>					
Gen, Controls & Quality		46.0	49.0	6.5%	
Clean Tech and Fuels		22.4	26.6	18.8%	
Energy Eff, Intelligence, Optimization		11.0	13.0	18.3%	
Renewable Energy		11.3	19.3	71.7%	
E&P Technologies		39.9	67.3	68.6%	

**Generation, Controls and Power Quality**



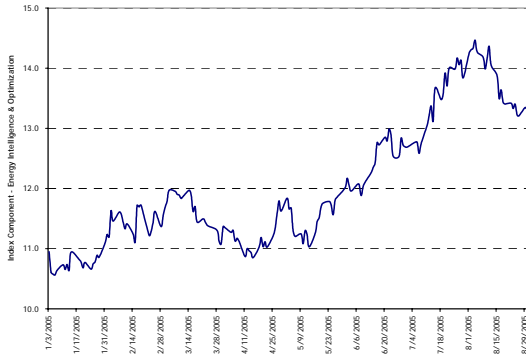
No. of companies 30  
 Market cap \$9.8 billion  
 2005 return 6.5%

**Clean Technologies**



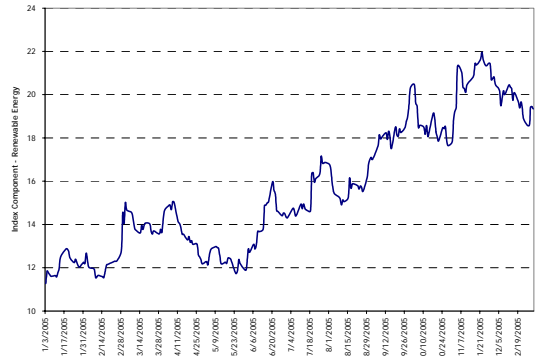
No. of companies 11  
 Market cap \$4.3 billion  
 2005 return 18.8%

**Energy Intelligence and Optimization**



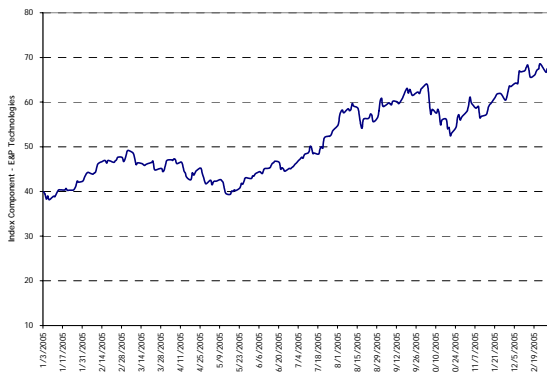
No. of companies 5  
 Market cap \$3.0 billion  
 2005 return 18.3%

**Renewable Energy**



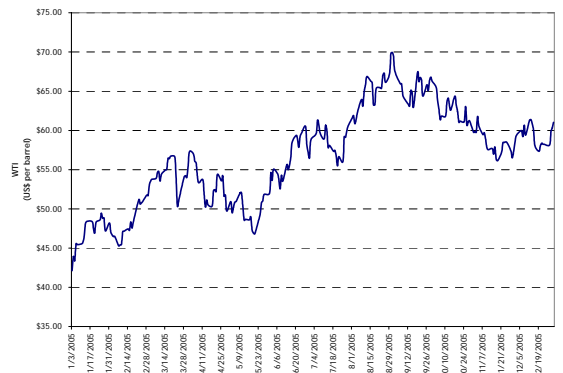
No. of companies 8  
 Market cap \$7.7 billion  
 2005 return 71.7%

**Exploration and Production Technologies**



No. of Companies 15  
 Market cap \$14.8 billion  
 2005 return 68.6%

**Oil Price**



2005 increase 44.9%

### Correlation Matrix

Except for the Generation and Power Quality segment, other components of the Index show strong correlation to oil prices. The matrix below shows correlation among Index components and oil prices.

	OIL	INDEX	DQ	CT	EI	RE	EP
OIL	1.00	0.82	0.09	0.71	0.89	0.82	0.91
INDEX		1.00	0.54	0.92	0.90	0.95	0.95
DQ			1.00	0.54	0.21	0.40	0.28
CT				1.00	0.82	0.80	0.82
EI					1.00	0.87	0.94
RE						1.00	0.93
EP							1.00

Source: HamiltonClark

### Conclusion

The HamiltonClark EnergyTech Index performed exceedingly well, gaining 34.2% in 2005. The Index is up 75.2% since inception in January 2004. If one had invested \$100,000 in the Index at inception, it would be worth approximately \$175,000 at the end of 2005. However, performance data featured represents past performance, which is no guarantee of future results. Investment return and principal value of an investment will fluctuate. Current performance may be higher or lower than the performance data quoted in this report. (See important disclosures at the end of this report.)

# The Money Chase

Himesh Dhungel, PhD

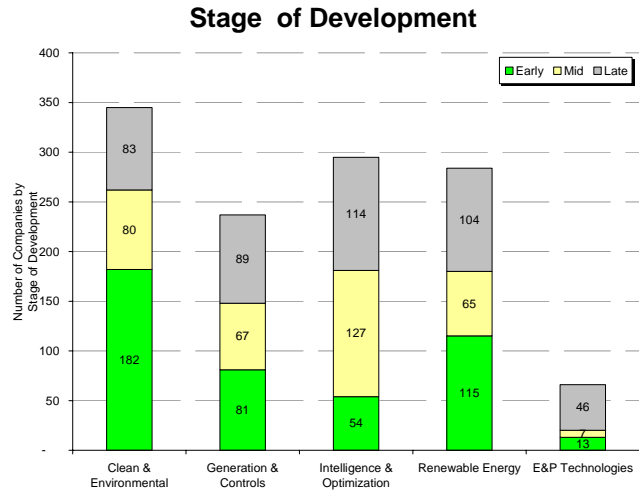
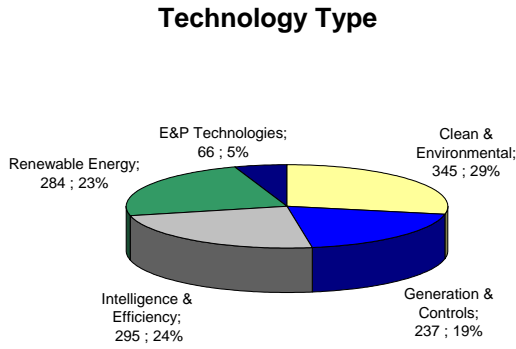
*In our previous report we summarized the findings of our annual survey of the demand for capital in the energy technology sector. We concluded that the demand is approximately 10 times greater than supply. This Darwinian scenario is a trophy for investors but a nightmare for entrepreneurs. Competition for limited institutional capital is intense and consequently, an investor-friendly professionally prepared financing plan has a better chance of success than a home grown business plan.*

## How we organize the HamiltonClark EnergyTech Database™

<b>Renewable &amp; Sustainable Energy (RE)</b>	
Biomass/Biogas	Pyrolysis, thermal, landfill gas, coal bed methane, digesters
Geothermal	Geomagmatic, geothermal
Renewable Energy Project Developer	Project developers
Renewable Energy Services	Systems integrators, service providers
Solar	Photovoltaics, concentrated PV, solar thermal, solar lighting
Hydro	Generating equipment, wave energy, tidal energy
Wind	Wind turbine and ancillary technologies
<b>Clean Energy Technologies (CT)</b>	
Clean Fuels	Ethanol, clean coal, biodiesel, methanol
Pollution Control/Clean Tech	Emissions reduction, low/zero emission combustion
Clean Water, Environmental Services	Environmental services
Energy Efficiency	Efficient lights, motors, chips, HVAC, variable speed drive
Fuel Cells and Related	SOFC, PEM, air mgmt system, stacks
Hydrogen	H2 generation, storage, transportation
Clean Vehicles	Hybrids, clean engines
Recycling	Waste-to-energy
Other CT	Clean technologies not included elsewhere
<b>Power Generation &amp; Power Quality (DQ)</b>	
DG Enabling Technologies	Power electronics, controls, embedded software
Distributed Generation Equipment	Turbines, Stirling, Brayton, IC engines, CHP technologies
DG Services and Developers	Inside-the-fence, energy service companies
Uninterruptible Power Systems	Batteries, flywheels, back-up, power conditioning/quality
<b>Energy Intelligence &amp; Optimization (EI)</b>	
Market-related Software	Energy B2B, marketplaces, trading software, risk mgmt
Customer Relations/Information	Utility CIS, billing, applications service providers
Enterprise Energy Management	Building energy mgmt., DSM, reporting/analysis
Metering, Sub-metering	Meter, sub-meter technologies
Networks/Telecom	Gateway, wireless device, powerline technology
Utility Asset Management	Superconductor, T&D tech, asset optimization
Other EI	Energy intelligence, not included elsewhere
<b>E&amp;P Technologies (EP)</b>	
Exploration Technologies	Seismic/reservoir data, software, geophysical equipment
Asset Management	Sensors, monitors, remote access, data acquisition
E&P Service	Specialty material, motors, generators, pumps, compressors
Alternative Fuel E&P Developer	Unconventional fossil fuel development

### Energy Technologies: A Snapshot

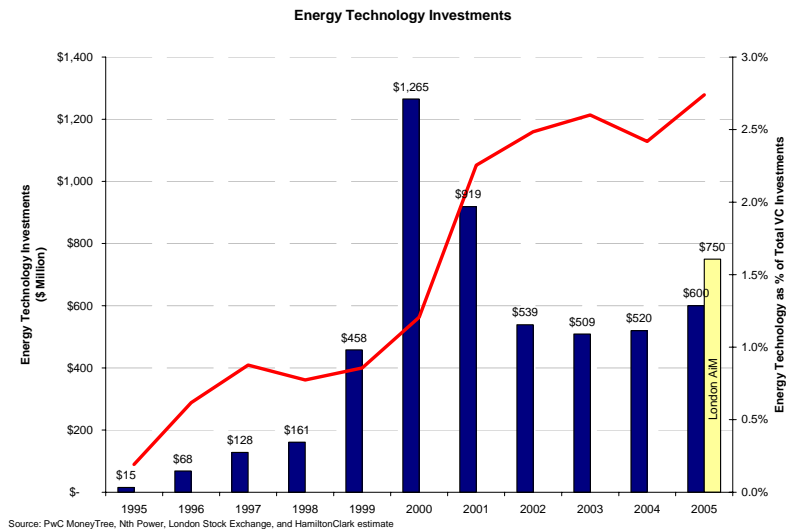
Among the approximately 1,230 energy tech companies that we track, clean, environmental and renewable technologies together account for about 50%. Companies in the database are almost evenly distributed among early, mid and late stage based on their level of technological development rather than their commercial success. A segment breakdown follows:



Source: HamiltonClark

Our survey shows that on average, companies are seeking \$6.8 million, with the median amount sought estimated at \$4 million. Late stage companies, on average, are seeking more money than companies in the other two stages. Many energy tech companies need project or product financing even after the technology has been developed. Higher amounts of capital sought by late stage companies suggests that this continues to be true.

Overall, we estimate that companies are seeking about \$5 billion in financing, where renewable energy and clean technologies represent about 55% of all capital sought, followed by generation and control technologies with about 25% of all capital being sought. This contrasts with the amount of capital available, with an estimated \$600 million from institutional venture capital and about \$750 million from AiM in London. Darwinian conditions for certain.



# AiM Update

Himesh Dhungel, PhD

*In 2005, we tracked 19 energy technology financings on the Alternative Investment Market (AiM) of the London Stock Exchange totaling about £415 million. Three unusually large financings totaling £264 million were responsible for this large spike. Some U.S.-based companies are now raising capital on the AiM from U.S. investors, so the market is clearly becoming global. Will this trend continue and what does this mean for energy technologies?*

*HamiltonClark advises US companies on AiM listings and IPOs on AiM.*

## **Energy Technology Companies on AiM**

The level of energy technology financing on AiM moved up a notch in 2005, with one company (Trading Emissions plc) raising £135 million in April. There were two other financings in the £50 million plus category (Eco Securities and Clipper Windpower). Although the median financing for energy tech companies is still about £8 million, these recent large transactions and several other large (by historical AiM standards) non-energy tech transactions suggest that there is something else occurring in the financing market.

Hedge funds, QIBs and other institutional investors appear to have accepted the AiM process and are looking to invest in AiM offerings. One U.S. investment bank has recently claimed to have marketed over \$250 million of AiM paper to U.S. investors last year.

In addition, we believe that petrodollars resident in the London market are attracted to the AiM market due to the ability to invest directly in smaller growth companies, rather than invest in alternative investments through private equity and venture capital funds, which in turn invest in the smaller companies. AiM lets the investor invest directly, without a management fee or a promoted interest in capital gains. We even see a bit of a hedge for petro-dollar investors investing in energy technology companies.

Larger and more prestigious investment banking firms are also looking at AiM as a growth capital market. This will mean larger offerings, more liquidity and access by U.S. companies to follow-on offerings on AiM where they can maintain dual listings, both in the US (NASDAQ) and Europe (AiM). Last year Enova, a U.S. registered company did a follow-on offering on AiM and Azure Dynamics, a Toronto Exchange listed company also offered and is listed on AiM.

Lastly, venture capital firms are looking to AiM as a lower cost and lower hassle way to exit. December's issue of Corporate Financing Week carried an article about how venture capital firms, once leery of AiM as a competitive threat to B and C round financings, are now looking at AiM in a different manner. The LSE is scheduling seminars in the U.S. during January and February to tout the advantages of AiM offerings.

A listing of energy technology companies on AiM and selected energy tech companies trading on the main board (the London Stock Exchange) are shown in the next page.

## Energy Technology Companies on AiM

Company Name	Domicile	FINANCING		Mkt Cap @ 12/30/05 (£MM)	Sector Comment
		Amount Raised (£MM)	Valuation@ Financing (£MM)		
1 Acta	Italy	£8.0	£44.8	£44.3	Fuel cell
2 Alkane Energy plc	UK	-	£11.0	£31.8	Biogas/methane to electricity
3 Aspen Clean Energy plc	Sweden	£1.0	£1.1	£12.3	Biofuels
4 Augean	UK	£86.1	£117.9	£101.2	Environmental controls
5 Azure Dynamics Corporation <sup>(1)</sup>	Canada	-	£25.0	£78.1	Hybrid electric drive systems
6 Biofuels Corporation	UK	£32.7	£110.5	£39.4	Biodiesel
7 Ceres Power Holdings	UK	£22.0	£66.1	£78.5	Solid oxide fuel cells
8 China Shoto plc	China	£6.0	£26.0	£26.2	Battery and UPS
9 Clean Diesel Technologies <sup>(2)</sup>	USA	£3.6	£17.7	9.55	Clean diesel catalyst technology
10 Clipper Windpower	USA	£75.0	£180.8	£267.9	Wind turbine and projects
11 CMR Fuel Cells plc	UK	£10.3	£38.9	£39.1	Stacks for fuel cells for electronics market
12 Compact Power Holdings	UK	£10.2	£26.1	£5.5	Pyrolysis gasification technology
13 Conder Environmental plc	UK	£3.5	£7.5	£5.1	Pollution control
14 Corac Group	UK	£14.4	£77.7	£22.2	IP-based engg. company - PMG, Drives
15 D1 Oils	UK	£13.0	£34.4	£54.8	Bio diesel
16 EcoSecurities Group PLC	Ireland	£54.0	£137.0	£155.8	Carbon/CO2 broker
17 Enova Systems Inc. <sup>(2)</sup>	USA	£11.5	£33.7	£29.2	Hybrid electric and electric vehicles
18 Gas Turbine Efficiency plc	Sweden	£5.4	£16.0	£15.5	GT efficiency enhancing technology
19 Gooch & Housego	UK	£5.9	£17.8	£59.0	Electro-optics; light measurement
20 GTL Resources plc	UK	£24.0	£28.4	£38.0	Stranded gas to liquids
21 Hydro International plc	UK	-	£13.5	£15.4	Storm and waste water management
22 IPSA Group plc	UK	£8.0	£14.8	£15.8	Independent power plants in South Africa
23 ITM Power	UK	£10.0	£45.7	£129.5	Polymer PEM fuel cells
24 Kp Renewables	UK	£3.0	£57.4	£32.4	Renewable project development
25 Novera Energy Limited <sup>(3)</sup>	Australia	£5.3	£31.8	£31.7	Renewable energy
26 Ocean Power Technologies	USA	£25.0	£62.8	£38.9	Wave technology
27 Offshore Hydrocarbon Mapping plc	UK	£15.5	£49.3	£23.1	Electromagnetics tech for E&P
28 Oxonica	UK	£8.3	£35.3	£62.6	Nano materials
29 PM Group	UK	£4.5	£12.5	£32.9	Engineering services
30 Polyfuel	USA	£8.0	£23.0	£25.8	Direct methanol fuel cell
31 Pursuit Dynamics plc	UK	£4.2	£17.7	£98.2	Engineering services
32 Questair Technologies <sup>(1)</sup>	Canada	£6.5	£27.8	£16.8	Hydrogen and gas purification
33 Renewable Energy Holdings	UK	£10.0	£14.5	£16.1	Investments in RE tech and projects
34 Renova Energy plc	UK	£9.1	£18.2	£40.5	Ethanol production and distribution
35 Rurelec plc	UK	£0.8	£4.8	£6.1	Electricification in remote areas
36 Solar Integrated Technologies	USA	£12.3	£57.2	£71.6	PV technology and services
37 Surface Transforms plc	UK	£1.3	£8.4	£2.8	Carbon fiber tech for vehicle systems
38 TEG Environmental plc	UK	£1.9	£8.2	£18.6	Waste reduction technology and service
39 Titan Europe plc	UK	£33.5	£47.8	£90.2	Vehicle components manufacturer
40 Torotrak plc (LSE)	UK	-	£294.3	£54.4	CVT/IVT manufacturer
41 Trading Emissions plc	UK	£135.0	£135.0	£200.1	Carbon emissions trading
42 Tricorn Group plc	UK	£1.6	£7.7	£4.4	Environmental engineering tech service
43 Turbo Genset (LSE)	UK	£31.3	£555.3	£22.8	Power conversion and supply equipment
44 Zytronic	UK	£6.6	£15.5	£39.4	Optical filters technology
<b>Total</b>		<b>£728.4</b>	<b>£2,576.8</b>	<b>£2,203.6</b>	
<b>Average</b>		<b>£16.6</b>	<b>£58.6</b>	<b>£50.1</b>	
<b>Median</b>		<b>£8.0</b>	<b>£28.1</b>	<b>£32.7</b>	

## Notes:

(1) Traded on Toronto Stock Exchange, exchange rate £1.00=CDN \$2.14

(2) Traded on US OTC Bulletin Board, exchange rate £1.00=US \$1.80

(3) Traded on Australian Stock Exchange, exchange rate £1.00 = AU \$2.34

The median equity give up at the time of placing/IPO is about 33%. Overall, these companies have performed well since going public. Of the 44 companies, 26 are trading above their IPO prices, with median appreciation of 54%. For the entire database, the median gain since IPO was 11%.

**Caveat Emptor**

Although the AiM market looks and sounds attractive, it is not for all. Consequently, the opportunity to obtain a higher valuation and avoid Sarbanes-Oxley and other regulatory issues should be carefully weighed against the cost and risks of raising capital on AiM. (Check our Q1, 2005 report for a detailed discussion on the process of raising capital on AiM.)

# Private Equity Primer:

## “How do I actually raise money privately in the U.S.?”

John J. McKenna

*As an independent investment bank and SEC registered broker-dealer, we are constantly being asked by CEOs and CFOs of early stage energy technology companies how to go about raising private capital from financial and strategic investors. Among our friends in the venture capital community, there are as many suggestions as there are investors in the market. If you ask a lawyer, you get a 10 page legal memorandum that will scare you to death. If you google private placement, there are many websites that profess the do-it-yourself private offering. But they appear a bit unbelievable. And, if you want to hire an investment bank (our firm for instance), we like to charge you for our time and effort.*

*Therefore, in this new world of full transparency we decided to offer our best advice to early stage energy technology executives as to how, actually, to raise private equity from institutional investors in the U.S.*

### **Some Definitions and Nomenclature**

Here are the key words that you will need to know.

**Raise.** The process and procedures needed to have your financing proposal stand out from the pack and get closed, versus being an exercise in futility. Currently we believe there are over 700 financing plans from energy tech companies circulating in the market. You need to make your deal compelling and professional, while at the same time conform to the legal restrictions imposed by the U.S. Securities Act.

**Private Equity.** In the financial world, private equity could mean a buy-out fund or venture capital. In early stage financing, private equity typically means venture capital. In this context it means an investment in a private company that seeks to go public or be sold in five to seven years. Investors want to purchase (invest) at a low valuation and then sell (exit) at a high valuation. It's all about capital gains. If the company prospers, all the shareholders do very well. If the company performs poorly, the private equity investors own most of the business. If the company is a disaster, everyone loses. Specific details about terms and the implications of these terms can be found in previous reports available on our website at [www.hamiltonclark.com](http://www.hamiltonclark.com).

**Institutional Investors.** Currently in North America and Europe there are about 200 private equity firms, corporate investors, and hedge funds that will look at energy technology investments. We do not include individual investors in this count. This note only covers our advice related to institutional investors.

### **Hire an Investment Banker or Do-it-Yourself**

Since we have a conflict of interest in answering this question, we assume that you want to raise the money yourself and not hire a banker.

## The Successful Offering

We believe there are three secrets to a successful offering:

1. **The substance of the company's business plan and experience of the management team.** Do you offer a compelling value proposition to customers? Do you have the management team that can execute the plan?
2. **Legal and business concerns.** Have legal and business issues been addressed properly including transactions with management? Have all incorporation and securities issues been addressed by counsel? Are historical financial statements audited?
3. **The form of the offering.** Do the pre-money valuation and terms of the offering make sense to an investor? Are the financial projections in compliance with GAAP, and do they make sense? Is the offering in compliance with SEC private placement exemptions? Are the offering documents presented in a professional manner? Are you fully prepared for investor due diligence?

We cannot opine on the substance of a business plan until we see it, or the experience of management until we meet them. We are not lawyers or accountants so all we can suggest is that you find good professional services firms to assist. However, we do know something about the form of the offering and therefore the balance of this note deals solely with how to get a deal closed.

## Pre-Money Valuation

Investors use four methods to vector into the pre-money valuation of a financing:

1. Comparable public company valuations, less private company and exit transaction expense discounts
2. Comparable transactions valuations of other similar private equity offerings
3. Internal rate of return analysis of the proposed deal structure and projections. Does the deal meet the investor's IRR expectations?
4. Negotiation

We believe that companies should agree the pre-money valuation of their business (with management and the board) prior to seeking financing, and then negotiate with investors based on this valuation.

The vernacular of this negotiation starts with the investor's first query when looking at the deal. The investor asks, "What is the pre-money?" Your response needs to be, "We're trying to sell X% of the company for Y million, at a pre-money of Z million". Y is the amount of the financing, Z is the pre-money valuation that you and your board have agreed, and X is the percentage of the company that the investor will own after completion of the transaction. X is computed as a percentage, with the numerator being the amount of the financing and the denominator being the pre-money value plus the amount of the financing (pre-money plus the amount of the financing is referred to as the "post-money" valuation).

A common mistake that companies make is that they have not performed a rigorous analysis of their pre-money valuation. I find this odd because management almost always knows precisely what it intends to charge for its product or service, but not what they intend to charge for the company. Consequently, the response to an investor is often some form of "We'd like you to tell us what you think". I also find this odd because no executive would ever think of telling the customer "Pay me what you think our product is worth".

**Conclusion:** Come up with a pre-money value and start the price (valuation) negotiation from a position of strength.

### **Terms of the Offering**

Almost all private equity offerings are structured as convertible preferred stock. "A Round" financings often require that the founders convert their investment and loans into common stock so that the new investors have a senior position in the capital structure. "B Round" financings generally give new investors preference over the "A Round" investors so that they are senior to the previous class of investors. At exit, the preferred stock converts to common stock.

We believe that companies should go through the process of proposing a set of terms for the convertible preferred, complete with a pre- and post-financing capital structure. This accomplishes two objectives. First, you and your board know what to expect in the negotiation of terms. Understanding "liquidation preference" can really be a shocker for first time management teams. Final terms will never be exactly as proposed, but if you have a good lawyer, final terms should not be too different. Second, investors are impressed that they are dealing with professionals and are often relieved not to be the bad guys in educating management about private equity terms and procedures. If you are not using a banker, ask your lawyer and accountant to help.

**Conclusion:** Include a term sheet in the private placement memorandum.

### **Financial Projections**

Financial projections (a) are required, (b) should be in GAAP format, (c) need to make sense, (d) need to flow from clearly stated assumptions, and (e) need to be in a format that allows the investor to change the key assumptions for their own sensitivity analysis.

This means an income statement, balance sheet and cash flow statement in the format that you see in the historical financial statements that are in the back of an S-1 prospectus. If you are not familiar with the format go to [www.sec.gov](http://www.sec.gov) and pull down the prospectus of your most comparable public company from the SEC's EDGAR database.

If you are doing this without a banker, ask your accountant to assist with the projections but do not expect that the accountant will certify them nor will the accountant want to be mentioned in the private placement memorandum. This can be requested but it's often very expensive.

The projections flow to the IRR expectations in your valuation negotiation.

**Conclusion:** Credible projections are the key linkage to negotiation of valuation.

## SEC Compliance

This note is not meant to offer legal advice which should come from your lawyer.

All securities offerings to investors in the United States are subject to the registration requirement of the U.S. Securities Act of 1933 ("Securities Act"), unless the manner of the offering and the investors being approached qualify the offering for an exemption under the Securities Act. In addition, all offerings of securities (public offering or exempt private placement) are subject to the anti-fraud provisions of the Securities Exchange Act of 1934 ("Exchange Act").

### *Exemption from Securities Act Registration*

The two provisions most commonly used by issuers that want to conduct a private "exempt" offering in the U.S. are Section 4(2) and Regulation D ("Reg D") under the Securities Act. Section 4(2) provides an exemption from registration by an issuer "not involving any public offering". Reg D is a "safe harbor" rule which provides that offerings made in accordance with Reg D (in particular Rule 506) will be deemed to be exempt transactions under Section 4(2).

To obtain the protection of Reg D, the offering must satisfy all of the conditions of the regulation. Failure to meet any of the conditions will cause the offering to lose the protection of the "safe harbor". The required procedures under Reg D and Section 4(2) consist generally of the following:

- **Control of placement activities.** Solicitations need to be either by the issuer itself, or by a placement agent registered under the Exchange Act as a broker-dealer. The issuer or the agent also needs to have knowledge and experience with the practices and requirements of private placements in the U.S.
- **Nature and number of offerees.** Each offeree should be an experienced and substantial investor (an "accredited investor") meeting the typical private placement standards, namely Rule 501 (a) (1), (2) or (3) under the Securities Act (institutional investor with assets in excess of \$5 million, or individual investor with a net worth of at least \$1 million or not income in excess of \$200,000 (\$300,000 including a spouse) in each of the most recent two years). (See our website for a complete definition of "accredited investor"). In addition to an unlimited number of accredited investors, issuers can offer to sell securities to not more than 35 "sophisticated investors". These are generally individual investors that do not meet the "accredited investor" test. (We do not recommend that institutional and individual investors be commingled). Although Reg D does not limit the number of offerees, the issuer or the placement agent typically keeps a record of each offeree in order to insure that the offering is not considered to be a public offering.
- **Minimum purchase.** Reg D does not impose a minimum size but a minimum size is usually one of the procedures to establish an exemption under Section 4(2).
- **Integration.** Since all private offerings must comply with Reg D, it is necessary to determine if prior or subsequent offerings might be considered as part of the offering seeking the exemption. The safe harbor is six months (six months before the offering commences and six months after the offering closes).
- **Information requirements.** Reg D does not require that any specific information be supplied to institutional investors. However, each purchaser should be supplied with

information sufficient for an informed investment decision. This would typically include providing the investor with a “private placement memorandum”, prepared by the issuer and allowing the investor access to due diligence information about the condition of the issuer and its business.

- **Limitation on resale.** Securities purchased in an exempt private placement are considered to be “restricted securities”. They may not be resold without registration. Reasonable care needs to be taken that (i) securities are purchased for investment, (ii) written disclosure is made about the absence of registration and resale, and (iii) there is a legend on the securities about the absence of registration and restrictions on resale.
- **Limitation on publicity and manner of offering.** Securities offered in a private placement can not be sold by means of a general solicitation or general advertisement, or at any meeting organized by general solicitation. There can be no reference to the private placement in any press release and the private placement can not be made available to the public. Consequently, issuers and agents keep track of the offering documents and make certain that recipients to not duplicate or redistribute the documents. Issuers need to refrain from institutional advertising during the offering.

### ***Disclosure Liability under the Exchange Act***

The exemptions described above will not exempt private placements of securities in the U.S. from the anti-fraud and other liability provisions of the U.S. securities laws. Disclosure liability relating to private placements in the U.S. is most likely to arise under Section 10(b) and Rule 10b-5 of the Exchange Act. Under these provisions it is unlawful in connections with the sale of any security to make an untrue statement of a material fact or to omit to state any material fact. Issuers generally do not have any affirmative defense to liability for violations of Rule 10b-5. Consequently management and the board of an issuer use the private placement memorandum as a “disclosure” document to state the facts and inform an investor of the risks. The placement agent’s liability is generally subject to its due diligence defense which is why the placement agent normally spends a considerable amount of time and effort in preparing due diligence files.

**Conclusion:** Make certain that you get good advice from your securities lawyer if you intend to offer securities privately in the U.S. without a broker-dealer, placement agent. A well written private placement memorandum is a good safe harbor for issuer compliance.

### **Offering Documents**

We receive a huge number of business plans from energy technology companies, but very few private financing document packages. Oddly, all business plans are sent by companies seeking financing. They are generally well written, but few business plans include the kind of information that will help management negotiate a private financing. Rarely do business plans indicate a proposed pre-money value, nor do they propose a term sheet or even mention the form of investment.

We believe that this is a missed opportunity.

All well written offering document packages include the same technology, business and product information that’s in a good business plan. But these packages go one step further; they describe the deal being proposed and management’s suggested relationship with its investors. For this reason we recommend that companies seeking financing should focus on writing four documents, rather than just writing the “business plan”:

- **Private Placement Memorandum**, instead of bound, written business plan, write a PPM. The best format to use is the S-1 format suggested above without the “Management’s Discussion” section. All information in the PPM should flow from documents that verify the validity of the statements made in the PPM and that will be available to investors during due diligence, described below. The PPM is not a “selling document”. It’s a disclosure document that is meant to fully describe the technology, business and investment terms. The exact same information that is found in the business plan, but it is more focused on using the business plan in order to raise money.
- **Business and Financial Plan Presentation** in PowerPoint which should be about 30 pages long for a 30 minute presentation. This is what you will use on the road show. It’s the selling document.
- Written and CD version of the **Financial Projections** separately bound from the PPM and PowerPoint.
- Four page **Executive Summary** of the PPM.

**Conclusion:** We recommend junking the business plan and instead, incorporate the information you would normally put in your business plan into a well written private placement memorandum and accompanying PowerPoint presentation.

### **Investor Due Diligence**

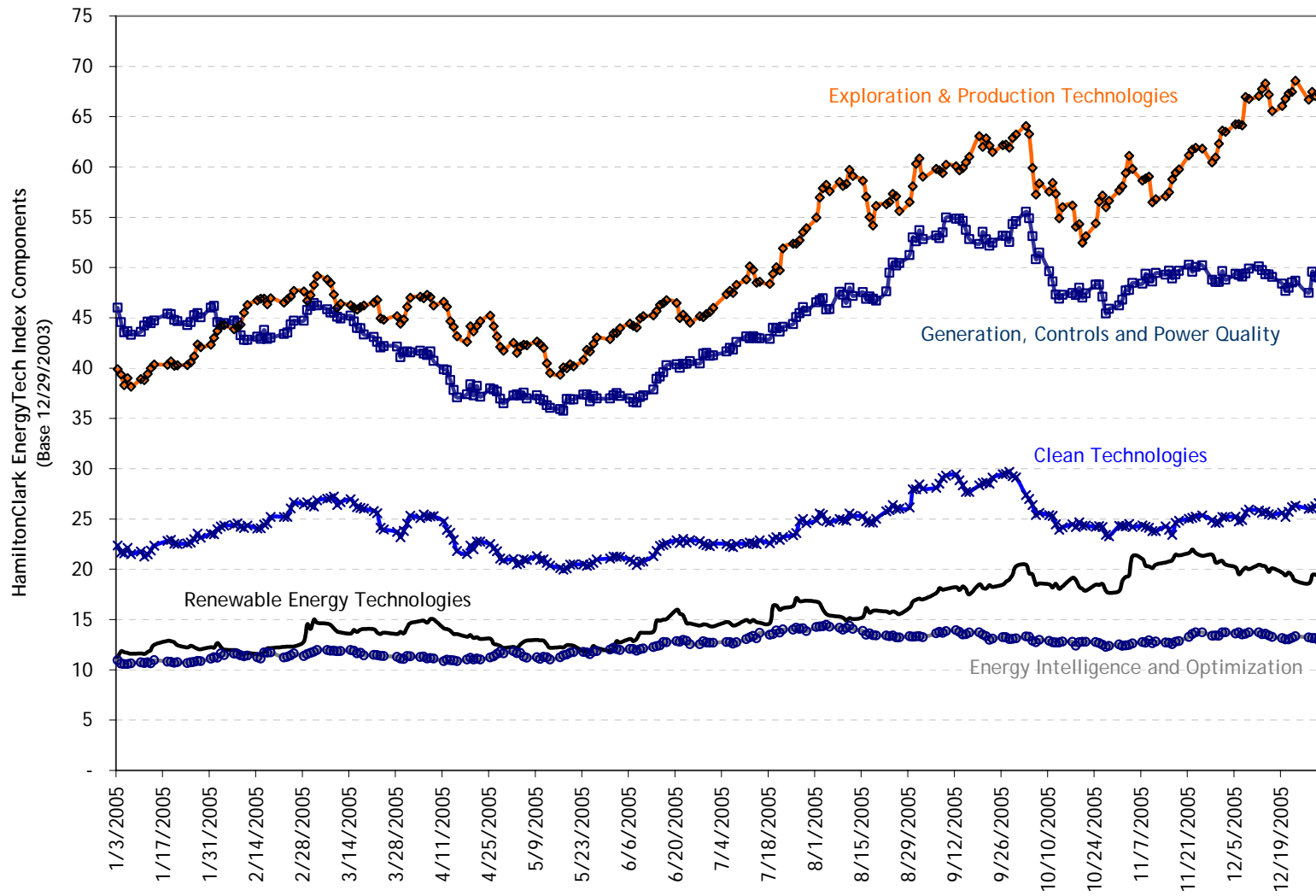
After you receive an indication of interest and prior to drafting investment documents, investors will conduct an extensive due diligence of the business and financial aspects of the company. Placement agents conduct due diligence prior to offering securities so if you use a placement agent you would have already gone through this drill. But if you are not using a placement agent, be prepared for a very extensive “deep dive” into all of the affairs of the company, background of management and phone interviews with industry experts, customers and prospects. To manage this process we encourage companies to prepare a “data room” where all this information can be organized and reviewed by investors, and their accountants and lawyers who will travel to the company’s offices for a few days of meetings and document reading.

**Conclusion:** All your good work to tee-up investors could go down in flames if the due diligence review is not well organized, or if the data does not back up the claims made in the financing documents. Have your lawyer and accountant participate in the meeting as well.

### **Conclusion**

Money is raised on good ideas and great management teams, not on slick documents. However, good ideas and great teams can get dinged by poor documentation. If you decide not to use a placement agent, get good advice from an experienced securities lawyer. The SEC has specific rules that need to be followed in a private placement, even if you are raising money from very sophisticated investors.

# HamiltonClark EnergyTech Index™ (January 1 to December 30, 2005)



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## Authors' Certification

We, John J. McKenna and Himesh Dhungel, PhD certify that the views expressed in this report to the best of our knowledge, accurately reflect our personal views about the subject companies and their securities, and that we have not been, are not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations or views in this report.

HamiltonClark beneficially owned less than 0.2% of the common stock of Azure Dynamics Corporation as of close of business December 31, 2005 and we received investment banking fees in 2005 representing Solectria Corporation in its acquisition by Azure Dynamics Corporation.

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Hamilton Clark & Co.

1660 International Drive, Suite 400

McLean, VA 22102

T (703) 288-5277

F (703) 288-5278

[www.hamiltonclark.com](http://www.hamiltonclark.com)

John J. McKenna

[john.mckenna@hamiltonclark.com](mailto:john.mckenna@hamiltonclark.com)

Himesh Dhungel, PhD

[himesh.dhungel@hamiltonclark.com](mailto:himesh.dhungel@hamiltonclark.com)

12 Greenway Plaza, Suite 1100

Houston TX 77046

(713) 658-8080

Ross F. Crawford

[ross.crawford@hamiltonclark.com](mailto:ross.crawford@hamiltonclark.com)

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