

Green Investing Snap Shot

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The deployment of green capital requires special considerations in the clean technology sector. Such considerations are driven by the relative size of early stage green capital investments and the inherent valuation difficulties attending such investments.

Traditional early stage company investments in other sectors such as software or wireless technologies are a fraction of the size of comparable early stage investments in alternative energy companies today. The typical Series A round of financing in the wind sector for example ranges from approximately \$50 million to \$100 million because the costs of the early stage development of a wind farm are significantly higher than the early stage costs of development in the software space where a post-angel round of outside financing is often in the \$1 million to \$3 million range. This early financing range differential has resulted in profound business and legal implications. On the business front, early capital raising rounds in alternative energy often involve traditional buyout heavyweight funds as opposed to traditional VC players as they alone are in a position to afford such relatively more expensive investments.

The legal features of the documents have also accommodated such buyout funds as M&A-like features are populating the documents and the degree of sophistication of the legal papers in question has increased significantly. It should be noted that to the extent that traditional VC funds are involved, they often arrange for club deals where multiple VC funds get together to share the capital raising burden. All of these developments have made the time required to close an early stage investment in this sector significantly longer than in other more "traditional" VC areas of investment and have even called into question the nomenclature VC as these investments are much more buyout/private equity like in nature.

While valuation is the bug bear of all early stage investing, because the relative stakes of early stage investing are so high, valuation concerns have

correspondingly increased and the use of "performance shares" has sky-rocketed in the alternative energy sector. Depending upon whether the alternative energy company in question achieves or fails to achieve certain milestones within a circumscribed period of time, the equity that such investor has been granted will be worth more or less of the fully diluted equity of the subject company. Practically, the ratio of conversion of the shares of convertible preferred stock that the investor has been granted will ratchet up or down into a greater or lesser number of shares of common stock depending upon whether by way of example, the test pilot facility in question is operational within the first six months of issuance of such shares or whether the subject company has successfully negotiated a memorandum of understanding with an "off-take" or power purchase agreement counterparty within an agreed to period of time post issuance of such preferred shares.

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