

Xtreme Power Doubles Sales for a Third Year in a Row

Xtreme Power is a SAIL I and SAIL II portfolio company.

Xtreme Power Inc., (XP) a maker of power-storage systems, expects sales to double for the third year in a row. "Revenue will exceed \$60 million this year, up from about \$30 million last year and \$15 million in 2010," said XP's CEO Alan Gotcher.

"A growing interest in systems that can store electricity when it's not needed as well as deliver power to the grid when demand exceeds supply, drives our sales," said Gotcher. The technology also helps counter the intermittency issues associated with renewable

energy sources like wind and solar. "Putting storage on the grid is a challenge," said Gotcher. "Using batteries, like XP's, are a paradigm – yet essential – shift."

XP secured contracts to develop six energy storage projects. The largest is for a 153- megawatt wind farm owned by Duke Energy.

XP also completed two systems for wind developer, First Wind Holdings. Recently, First Wind secured an additional contract. "When you already have systems running and they subsequently order another, this third contract is a strong vote of confidence in our capabilities," Gotcher said.



In light of these sales, XP will see positive cash flow in 2013. As such, XP considers an initial public offering in the near future; however, it is receptive to a takeover bid. As Gotcher said, "XP is "totally open" to finding a strategic investor."

A group of investors, including SAIL Capital Partners, BP, Dow Chemical Company and Posco, founded XP in 2004. Since then, XP continues to show progress and success.

www.xtremepower.com

Inside this Issue:

- U.S. Secretary of Energy Tours Dow Kokam's R&D Center 2
- Companies Articulate the Economic Rationale for Embracing Sustainable Capitalism 2
- EDF's Energy Storage Series Features Xtreme Power 3
- Meet FlexEnergy's New President and COO 3
- Consequences for Unsustainable Companies 4



Former President Clinton Highlights Methane Potential—FlexEnergy Transforms Methane from an Air Pollutant into a Clean Energy Source

FlexEnergy is a SAIL II portfolio company.

This month, FlexEnergy attended the ARPA-E Energy Conference. Former President Clinton's keynote speech highlighted several policy areas, including the importance of methane-to-energy projects. FlexEnergy is a leader in this field.

He addressed the need for a federal finance model that speaks to the economics of

methane-to-energy projects. This model applies to FlexEnergy, a company that transforms low-quality methane into clean energy. In doing so, it makes the payback such projects achievable—especially for municipalities that currently flare their landfill gas.

For example, Orange County recently contracted for eight Flex PowerStations. The systems will pay for

themselves in five to six years based on the revenue from the gas, as well as the savings from the eliminated monitoring fees. Theoretically, a federal policy that regulated the treatment of landfill gas could help scale methane-to-energy projects. Investors, companies, environmentalists and the like would all benefit from the adoption of such a policy.

www.flexenergy.com

Thought of the Month—

"You may delay, but time will not, and lost time is never found again."

- Ben Franklin

U.S. Secretary of Energy Tours Dow Kokam's R&D Center

Dow Kokam is a SAIL II portfolio company.

U.S. Deputy Secretary of Energy, Daniel Poneman, recently toured Dow Kokam's new lithium-ion battery research and development (R&D) center.

The R&D center aims to bring next-generation lithium-ion battery solutions to the market faster, increase battery performance and

reduce overall production costs.

"Forward-looking battery manufacturing facilities like Dow Kokam's, help American's compete in the fast-growing advanced-battery and energy-storage industry," Poneman said.

Last year, the U.S. Department of Energy (DOE) awarded Dow Kokam a \$4.9

million grant for their new R&D center. In 2009, the Company also received a \$161 million DOE grant for next-generation battery production. Support from the U.S. government further promotes Dow Kokam's capabilities as well as the importance of next-generation battery solutions.

www.dowkokam.com



Companies Articulate the Economic Rationale for Embracing Sustainable Capitalism

Even after enduring the global financial crisis – caused significantly by short-term, unsustainable practices – many still embrace short-termism. From investing, to relying on instant opinion polls, to tolerating discourse based upon tweets and Facebook posts, we focus too much on instant gratification and immediate results.

Today's unprecedented challenges, such as climate change, disease, income inequality, economic volatility and the like, threaten our entire way of life. To address these challenges, we must advocate a paradigm shift to *sustainable capitalism: a framework that seeks to maximize long-term economic value creation by reforming markets to address real needs while considering all costs and stakeholders.*

While the government must still play a part, companies and investors will ultimately mobilize most of the capital needed to overcome these unprecedented challenges.

Companies, in particular, can

articulate the economic rationale for sustainable capitalism because companies embracing sustainability create long-term advantages that one can easily quantify.

(1) Developing sustainable practices increases a company's profits, enhances its brand, strengthens its public trust and improves its competitive position as the market increasingly rewards this behavior.

(2) Sustainable practices such as reducing waste, increasing energy efficiency, and improving human capital practices, which increase retention rates and decrease training costs, saves the company money. Sustainability improves a company's bottom line.

(3) ESG metrics allow a company to achieve higher compliance standards. This holistic approach means better management of material risks.

(4) Sustainable businesses realize financial benefits such as lower costs of debt,

because legal, reputational and regulatory risks associated with environmental concerns, lowers credit ratings, which translates into higher costs of debt financing.

(5) Companies with strong ESG performance face lower capital constraints, because greater transparency with respect to ESG performance reduces information asymmetries. And, greater transparency means improved stakeholder engagement, which in turn reduces agency costs. Both effects lower capital constraints and allow companies to invest more efficiently.

Sustainable capitalism does not represent a trade-off with profit maximization, but rather, it improves operations, inspires innovation, yields top-line growth, reduces costs, and enhances profitability. Most importantly, sustainable capitalism positions the company for greater long-term success.



EDF's Energy Storage Series Features Xtreme Power

Xtreme Power is a SAIL I and SAIL II portfolio company.

The Environmental Defense Fund's (EDF) Energy Innovation Series will highlight more than 20 innovations across a broad range of energy categories, including energy storage. The Series will demonstrate the availability and imperative need for cost-effective, clean energy solutions.

EDF's Energy Storage Series will feature Xtreme Power. It will discuss how energy storage integrates clean energy onto the grid. This is important because today's grid does not look that different from when Thomas Edison first envisioned it over 100 years ago. In other words, today's overtaxed grid presents potential – and significant – costs for our economy.

Thankfully, power companies see the real value in upgrading today's grid with modern energy management technologies, thereby alleviating some of today's concerns.

For example, Xtreme Power develops a digital power management and energy storage systems called Dynamic Power Resources™ (DPR®). DPR® combines their PowerCell™ battery with a sophisticated digital power management system that instantly adjusts for imbalances in the electric grid. Xtreme describes its technology as "a unique, advanced battery that can beat lithium-ion batteries in terms of energy storage, efficiency, life cycle and cost."

This kind of innovation provides value to the entire

energy system, because it makes renewable energy more predictable (and therefore more valuable), and it also stabilizes the grid for far less money than larger infrastructure projects – all while reducing our dependence on fossil fuels.

When most people think of clean energy, they think of hybrid cars and solar panels. However, there are many other "less obvious" opportunities along the supply chain. From the gears and ball bearings that improve the efficiency of wind turbines, to technology like Xtreme Power's power management products, these opportunities provide cost-effective solutions to some of our most serious environmental problems.

www.xtremepower.com



Meet FlexEnergy's New President and COO

FlexEnergy is a SAIL II portfolio company.

FlexEnergy appointed Jay Mitchell as its new President and Chief Operating Officer (COO). Jay will initially focus on raising capital for Flex's continued growth, new product development and commercialization of its technologies.

"Jay Mitchell brings an abundance of knowledge and experience in the energy industry to our team. This experience will support our continued expansion in the marketplace," said Joe Perry, FlexEnergy CEO. "Jay has a wealth of experience from co-

founder of a startup equipment business to a C-Level executive of NYSE listed energy equipment manufacturers. We are tremendously looking forward to working with him."

Jay has a strong operations background in manufacturing. For example, Jay previously served as Senior Vice President and CFO at T-3 Energy Services, Inc., a publicly traded company and leading global manufacturer of blowout preventers to the oil and gas industry. Under his direction, T-3 expanded product lines, market share and profitability throughout changing market conditions.

Prior to his role at T-3, Jay served as CFO of the Latin American Land and E&P services of Pride International, Inc.

In addition, to his operational experience, he also has experience with fundraising. Throughout his career he raised almost \$1 billion in capital for both high level corporations and small start-ups. For example, Jay recently raised approximately \$30 million for an energy equipment company he founded.

FlexEnergy looks forward to adding new talent to their team.

www.flexenergy.com



SAIL Capital Partners
3161 Michelson Dr
Suite 750
Irvine, CA 92612

Inquiries and Sources:
Sarah Pavlik
spavlik@sailcapital.com
www.sailcapital.com

Sources:

- WSJ
- FlexEnergy
- Forbes
- Bloomberg.com
- Lee's Summit Journal
- Dow Kokam
- Xtreme Power
- EDF
- Greentech Media
- Smart Grid News
- Equal Money

This is an informal newsletter about SAIL and its portfolio companies. It is not an official report and may not be relied upon for any investment purpose. SAIL is not responsible for the accuracy of external source information.

SAIL Capital Partners (www.sailcapital.com) is a leading cleantech investment firm with a global vision of technologies, markets and opportunities. We invest in cleantech companies with proven technologies, visionary leadership, measurable impact and exciting growth potential. We have invested in a number of today's leading cleantech companies including Xtreme Power, Ice Energy, The Cleantech Group, Dow Kokam, Enerpulse, Activeion, SNTech, FlexEnergy, Paragon Airheater Technologies, M2 Renewables, Clean Technology Solutions, CNS Response and WaterHealth International. SAIL has offices in California, New York, New Orleans and Washington D.C. as well as a global network of investors and advisors.

Consequences for Unsustainable Companies

As discussed on page 2, companies that embrace sustainability practices will create long-term advantages over their unsustainable peers. If a company does not embrace sustainability, this choice may damage the company in the following six ways:

One: Popular disapproval of a company's unsustainable actions may lead to boycotts or reduced sales and brand degradation.

Two: The government is an intervening force in the transition to a more sustainable economy; therefore, government and regulatory pressure may

restrict a company's freedom to operate.

Three: Investor flight, due to disapproval of the company's unsustainable practices, may increase their cost of capital.

Four: The new wave of employment is more progressive than the past. As such, top talent may deter from joining an unsustainable company.

Five: Because regulatory, legal, and reputational risks associated with environmental concerns affect a company's long-term valuation, unsustainable companies may not attract potential business partners and strategic alliances.



Six: Management owes a fiduciary duty to the company and therefore, to its shareholders. Thus, if management disregards key factors like ESG metrics, and excessive exposure to risk, this failure to take action may lead to lower confidence in the company as a whole. This lower confidence in management may lead to lower valuations.

Sustainable capitalism: money aligned with common sense.