

Funding alternative energy startups in today's economic climate

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The first quarter of 2009 was slow for venture investing in general and the alternative energy space in particular. The alternative energy space has been burdened by poor economic conditions, fluctuation in the price of oil, and uncertainty regarding the energy policies of the Obama administration. It is easier, however, to fund certain kinds of alternative energy projects than others.

Business plans with large capital requirements and long timelines (e.g., the need to build large facilities) and business models dependent on the price of oil are very difficult to fund in today's environment. Solar, alternative fuels, oil shale and tar sands have been particularly hard-hit.

By comparison, it is easier to fund business plans which are more capital efficient and technologies or products which are already in or closer to market, such as energy management, energy efficiency, energy storage, materials, green building materials, filtration, irrigation, smart grid technology and lighting. Utilities are under great pressure to respond to federal and state initiatives and mandates, and companies supplying related technologies and products are currently in favor.

On the other hand, investors need to be convinced of management's ability to penetrate large customers (such as utilities) or to effect distribution in industries (such as building systems and materials) where distribution channels are dominated by a handful of major players. A keen understanding of who controls the markets and access to customers is of paramount importance.

Government grants and loans have assumed tremendous (and some would say unhealthy) importance in the financing of alternative energy companies/projects. Venture capital investors have historically been skeptical of companies that appear too focused on pursuing government grant money because it indicates that those companies' business plans may be driven more by chasing government grants than by building sustainable business models. Due to how badly the capital markets are doing at the moment, and due to the significant amount of grant funding available in the alternative energy area, however, this traditional analysis has been turned on its head and investors are now questioning the ability of management teams which do not have well-thought out government funding strategies.

It should be noted that a tremendous number of grant applications have been filed recently (38,000 with the Department of Energy alone); so many, in fact, that federal and state governments are experiencing significant difficulty managing the large volume of grant applications. Therefore, it is unclear what the hit rates or timing will be for the approval of government funding.

See www.dsireusa.org for a comprehensive listing of federal and state alternative energy inventive programs. DSIRE is a comprehensive resource maintained by North Carolina State University with funding from the U.S. Department of Energy. For information on grants available under the Ohio Advanced Energy Program, see: www.odod.state.oh.us/cdd/oeel/ELFGrant.htm

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