STATE OF NEW JERSEY

Board of Public Utilities
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CLEAN ENERGY

IN THE MATTER OF THE CLEAN ENERGY MANUFACTURING FUND SOLICITATION – AWARD MODIFICATION))))) ORDER

DOCKET NO. EO09120966

Parties of Record:

Sandy Zeglarski, New Jersey Economic Development Authority
Michael VanPatten, CFO, Princeton Power Systems, Inc.

BY THE BOARD:

On December 16, 2009, the New Jersey Board of Public Utilities ("Board or BPU") approved an award of $3.3 million in assistance to Princeton Power Systems, Inc. ("PPS") pursuant to the second public competitive solicitation for the Edison Innovation Clean Energy Manufacturing Fund ("CEMF"). Because of fire damage to its research and development ("R&D") facility and the growing demand for products from key customers, PPS is requesting that the Board authorize the following modifications to its loan documents: (1) consent to additional indebtedness of $1.5M from Sand Hill Finance which will include a senior lien on all business assets; (2) authorize the signing of an intercreditor agreement with a 120-day payment standstill period; and (3) approve of a restructured loan repayment over a 30-month period beginning January 2014.

Board Staff has reviewed the underwriting analysis and recommendations for approval by the New Jersey Economic Development Authority ("EDA"). Based on that analysis, Board Staff recommends that the Board approve the loan document modifications.

BACKGROUND

At its May 14, 2009 Agenda meeting, the Board voted to approve the second solicitation to be issued under the CEMF program. On June 1, 2009 the Board's Office of Clean Energy, in collaboration with the EDA as administrator of the CEMF, issued the Solicitation for the CEMF Program. The Solicitation offered financial assistance in the form of zero interest loans and grants to support Class I renewable energy or energy efficiency companies entering or expanding their manufacturing operations in New Jersey. The maximum grant amount was $300,000 and the maximum amount of the loan offered under the program is $3,000,000. Equal monthly repayments of the zero interest loan start in the fourth year, with the Board taking a lien on assets subordinate to any existing senior debt. Up to 33% (up to a maximum of $1 million) of the loan amount disbursed may be converted to a performance grant if business and technology based milestones are met during the first 3 years as agreed to prior to closing.

The PPS Project

PPS designs and manufactures advanced power conversion products and alternative energy systems for microgrids; electronic vehicle charging stations; energy storage systems and military applications. The company was founded in 2001 by Princeton undergraduate students, based on their patented electronic circuit and software mechanisms to uniquely convert electric power. Since the PPS first product release in 2005, the EDA and BPU have provided $4.75M in financial assistance to support the company's growth:

- BPU Recoverable Grant of $263,429; closed August 2006.
- EDA Business Employment Incentive Program Grant ("BEIP") of $435,000; closed March 2009.
- EDA Edison Innovation Fund Loan ("EIF") of $750,000; closed March 2009.
- BPU CEMF Grant & Loan of $3,300,000; closed May 2010.

According to the EDA, the Recoverable Grant and BEIP awards were closed in good standing. PPS' is moreover current on the EIF ($37,699 outstanding; matures March 2014) and CEMF (repayment commenced December 2013) loans. PPS was not able to meet the criteria to convert $1 million of its CEMF loan to a grant. Therefore, the entire loan amount of $3,000,000 will amortize.

PPS now requires a significant increase in working capital to fulfill new product orders in 2014, according to the EDA's underwriting analysis. To build capital reserves, in the third quarter of 2013 the company closed $1.3 million in new equity from GHO Ventures (existing investors) and reached terms with Sand Hill Finance for a $1.5 million credit facility. However, further cost structure adjustments are needed to meet the re-forecasted $17 million revenue opportunity in 2014 (see below). According to the EDA, PPS' new financial projections are attributable to two main issues – fire damage to its R&D facility and the growing demand for products from key customers.

Fire Damage at R&D Facility

On February 19, 2011, PPS suffered a total loss of its labs and solar and battery testing facility in Princeton, due to an accidental fire caused by an engineering employee. The financial loss was reimbursed by the company's insurance provider, and PPS rebuilt the facility at its current location. To assist PPS in rebuilding, the EDA extended the CEMF loan disbursement period by 6 months.

Increased Customer Demand

Despite the 6-month setback, PPS has maintained revenue pace from $4.98 million in 2012, to $5.83 million as of September 30, 2013. Management's forecast for 2013 and 2014 are $7.6 million and $17 million respectively. PPS will thus require a significant increase in working capital to fulfill these new revenue projections.

In order to increase its working capital, PPS is requesting that the Board authorize the following modifications to its loan documents: (1) consent to additional indebtedness of $1.5 million from Sand Hill Finance, which will include a senior lien on all business assets; (2) authorization for the signing of an intercreditor agreement with a 120-day payment standstill period; and (3) approval of a restructured loan repayment over a 30-month period beginning January 2014.

According to the EDA, the $1.5 million credit line will allow the company to purchase additional inventory to allow it to service the additional customer demand explained above. The additional debt would be secured by a lien on business assets which is senior to the BPU lien. PPS indicates that the additional financing will strengthen the company's financial standing and increase the likelihood of repayment of the CEMF loan.

To close on the $1.5 million financing from Sand Hill Finance, PPS has requested the BPU to execute an intercreditor agreement. The intercreditor agreement contains a "standstill" provision, whereby if PPS defaults on its loan with Sand Hill and under certain other terms and conditions, the BPU would "standstill" and not collect or seek payment from PPS for a period of 90 days. Such temporary forbearance of the exercise of legal rights is not addressed in the loan agreement and, therefore, requires the Board's approval.

Finally, under the current terms of the loan, PPS is required to pay equal monthly installments over a period of 84 months. The company is asking that its CEMF loan repayment schedule be restructured to defer payments for six months, and then allow smaller repayment amounts initially while progressing to larger monthly installments in later months. This would allow the company to conserve cash flow in the short term as it ramps up its manufacturing to accommodate the greater demand for its products.

Board Staff has reviewed the underwriting analysis and recommendations for approval by the EDA. Board Staff agrees with the EDA that the company is presently experiencing cash flow issues as a result of higher demand and a fire that destroyed its R&D facilities. While PPS did not meet its loan-to-grant conversion under the original loan agreement – which would have allowed PPS to convert part of the loan to a grant if certain criteria like number of jobs created was achieved – Board Staff notes that private investors have provided additional funding to the company recently, which is an indicator that investor trust in the company continues. Moreover, Board Staff believes that these loan modifications will increase the likelihood that the Board will be repaid the entire $3 million loan. Consequently, Board Staff recommends that the Board approve the loan document modifications.

DISCUSSION AND FINDING

Upon consideration of the facts and circumstances set forth above, the Board **FINDS** that PPS was awarded a $3.3 million incentive on December 16, 2009 under the CEMF of which $3 million is a loan. The Board **FURTHER FINDS** that EDA conducted an underwriting review of the PPS request for various modifications to its loan documents, and recommended that the modifications be approved. The Board **FURTHER FINDS** that Board staff reviewed the EDA's underwriting analysis of the proposed modifications and that staff concurs with the EDA that the modifications should be approved. The Board **FINDS** EDA's assessment to be reasonable, namely, that the loan restructuring will increase the likelihood of loan repayment given PPS's change in financial strength. The Board also **FINDS** that PPS and EDA have negotiated a repayment schedule that will allow the Board to proceed without total loss of the remaining loan investment. Therefore, the Board **FINDS** that the recommended modifications are appropriate and proper.

In addition, considering the specific facts and circumstances of this matter, the Board **CONSENTS** to a 120-day standstill provision as set forth in PPS's proposed intercreditor agreement. Therefore, the Board **HEREBY ACCEPTS** Staff's recommendation and **HEREBY APPROVES** the modifications to PPS' loan documents. The Board **ORDERS** that the modified loan documents be issued to PPS. The Board **AUTHORIZES** the President of the Board to sign the necessary loan modification documents and the intercreditor agreement, consistent with the terms of this Order.

DATED: 12/18/13

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ATTEST: Kristi Izzo

KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities

Kristi Izzo

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