[redacted]

From: [redacted]
Sent: Friday, January 07, 2011 4:38 PM
To: [redacted]
Cc:
Subject: RE: Talking points on work-out analysis

It's all from the parent and would be minimal if any—there may also be some inventory, but theoretically, that is all held at the parent as well. Regardless, we can always clarify in a technical discussion.

From: [redacted]
Sent: Friday, January 07, 2011 4:36 PM
To: [redacted]
Cc:
Subject: Re: Talking points on work-out analysis

Could there also be a 1c re: current assets (i.e. Any cash/receivables on project's books today should be valued at 100% in liquidation)?

This may overlap with but isn't the same as 1b.

From: [redacted]
To: [redacted]
Cc: [redacted]

Sent: Fri Jan 07 16:25:50 2011
Subject: RE: Talking points on work-out analysis

Here's what we suggest. Let us know if folks have any questions or comments.

Thanks.

- If the Department determines that this is a work out, then the Department needs to be able to support this by demonstrating that the work-out results in lower costs.
- OMB has concerns with the analysis provided. There are several pieces of information which we would need to perform this analysis.

1. **<u>Liquidation Scenario</u>**: The liquidation analysis DOE provided appears to understate potential recoveries, and additional information is needed to evaluate the expected recoveries to the Government. Please provide detail for the valuation performed under the liquidation scenario, including any haircuts, and timing assumptions embedded in the analysis. Specifically, we are concerned that the analysis provided:
   a. does not appear to assign values to the land and buildings that are consistent with previously provided analyses supported by both the Independent Engineer and a nationally recognized Rating Agency; and
   b. does not appear to reflect all assets in the collateral package (e.g., project equity)

2. **<u>Alternatives to Restructuring</u>:** DOE's analysis assumes that the only alternative to restructuring is a liquidation. While we believe DOE's liquidation analysis may understate potential recoveries, we also believe there are other alternatives that would result in higher recoveries than simple liquidation today.

   a. For example, DOE could sell the company and/or its distressed debt to a private equity firm that specializes in turn-around. By definition, these firms would only invest if they thought they could extract better value than liquidation. Please provide an estimate of what the potential recoveries under this scenario might be.

3. Going concern/restructuring scenario:
   a. The analysis provided did not appear to factor in the interest costs—or time value of money to the Government given that repayments would be later and still at risk. Could DOE please provide the expected re-amortized cashflows, and underlying default/recovery assumptions post-restructuring? Also, this analysis should take into account the order of priority in DOE's claims under the restructuring.
   b. The analysis DOE provided suggests that under a restructuring, Solyndra and the project would effectively be on par with stronger competitors in estimating a going-concern value. With increasing competition from China, and other low-cost competitors, it wasn't clear how Solyndra would be able to achieve the scale-up and margins needed given a more specialized niche, at least under the original marketing plan and pricing.
      i. Could DOE address how the additional capital and time for restructuring would reduce costs or otherwise provide efficiencies to result in a more competitive company?
      ii. Could DOE provide a 2011projected solar supply stack and indicate how Solyndra's current and projected cost structure compares?

From: [redacted]
Sent: Friday, January 07, 2011 3:28 PM
To: [redacted]
Cc: [redacted]
Subject: RE: Talking points on work-out analysis

[redacted] and I are talking now, and working out some ways to better target the ask for DOE. She will send around shortly.

From: [redacted]
Sent: Friday, January 07, 2011 3:27 PM
To: [redacted]
Cc: [redacted]
Subject: FW: Talking points on work-out analysis

[redacted] had to go and get her sick child today but she may be able to clarify. We do not have full information on the workout. [redacted] called after receiving this to say that she was concerned that this was constructed as an easy target for DOE to hit.

I believe that we have some of the information but not all of it. For example, we still don't know when the restructured firm starts to pay the loan. As I said in the meeting, we have strong doubts as to whether the workout situation is more valuable.

From: [redacted]
Sent: Friday, January 07, 2011 3:21 PM
To: [redacted]
Cc: [redacted]
Subject: RE: Talking points on work-out analysis

[redacted]

It is my understanding that we do have the necessary materials, and that they show that the workout is a cost. This seems to be different than what was expressed at the meeting. Could you clarify?

From: [redacted]
Sent: Friday, January 07, 2011 2:51 PM
To: [redacted]
Cc: [redacted]
Subject: FW: Talking points on work-out analysis

These are our suggested talkers:
Please call me or [redacted] if you have questions.

[redacted]

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You requested talking points for your conversation with DOE GC concerning our request for an expected value analysis. Below are our suggested points, which others on this note might wish to comment on :

- If the Department determines that this is a work out, then the Department needs to be able to support this by demonstrating that the work-out will REDUCE COSTS to the government.
- This would seem to require comparing potential recoveries in two circumstances: where a default occurs soon without the restructuring (which would likely result in a liquidation of the project) vs. what potential recoveries might be after the proposed restructuring. And, even if the restructuring happens, there are several potential scenarios that could result.
- We believe the best way for the Department to make such a demonstration of reduced costs to the government is in terms of an Expected Value of these various scenarios. In other words, determine the average cost to the government as a result of liquidation and in the different post-restructuring scenarios, weighted by the probability that the Department applies to that scenario. (If the possible outcomes were \$100 with a 25% probability and \$400 with a 75% probability, the expected value would be (\$100*.25)+(\$400*.75) =\$325 as the "expected value.")

  [If DOE asks how these scenarios might be constructed:]

  - Scenario A: The restructuring is meant to get the project construction completed, and hopefully get the project to a cash-flow positive situation. In that case, recoveries in the event of a default can be estimated on a "going-concern" basis (i.e., assuming, for example, that another company would choose to buy the project and continue to operate it). We understand DOE used this approach to assess the value of recoveries post-restructuring.
  - Scenario B: It is, however, possible that even after the restructuring, that default could result in a liquidation (e.g. even though the facility is completely built and rights to IP are part of the asset package, no one wants to buy it because the product remains uncompetitive at the prices necessary to make it profitable).
  - DOE may choose to model additional scenarios to reach its expected value.

From: [redacted]
Sent: Friday, January 07, 2011 2:25 PM

To: [redacted]
Cc: [redacted]
Subject: FW: Talking points on work-out analysis

[redacted]

Attached are the bullets for [redacted] I don't think he needs the grayed out ones; I think that is part of the legal analysis that he is on top of.

Let us know what you think and whether you think BRD needs to review. I think if [redacted] sees it we are OK.

From: [redacted]
Sent: Friday, January 07, 2011 2:05 PM
To: [redacted]
Subject: Talking points on work-out analysis

Here are some suggested talking points for GC's conversation with DOE GC:

- Our view is that a work-out determination requires 3 conditions be met: 1) a project is troubled or in imminent default, 2) the proposed changes to the loan should seek to maximize recoveries (i.e. minimize costs) to the Government, and 3) restructurings of the sort proposed should have been anticipated in the original credit subsidy cost estimate at loan origination.
- For this project, the original cost estimate did not anticipate the type of loan changes being proposed, including subordination of the loan and discounting parts of DOE's loan. This alone would suggest it should be treated as a modification for budget purposes.
- But the second criterion is critical too, because the point of a work-out is to REDUCE COSTS to the government, not to increase the subsidy for the borrower.
- We therefore have to compare potential recoveries in two circumstances: where a default occurs soon without the restructuring (which would likely result in a liquidation of the project) vs. what potential recoveries might be after the proposed restructuring.

  But even if the restructuring happens, several potential scenarios could result. So the cost to the Government after a restructuring needs to be estimated as an Expected Value of these various scenarios. In other words, we need to determine the average cost to the government of the different scenarios post-restructuring, weighted by the probability that the Department applies to that scenario. (If the possible outcomes were 100 with a 25% probability and 400 with a 75% probability, the expected value would be (100*.25)+(400*.75) or (25+300)=325 as the "expected value.")

  - Good Scenario: The restructuring is meant to get the project construction completed, and hopefully get the project to a cash-flow positive situation. In that case, recoveries in the event of a default can be estimated on a "going-concern" basis (i.e. assuming, for example, that another company would choose to buy the project and continue to operate it). We understand DOE used this approach to assess the value of recoveries post-restructuring.
  - Bad Scenario: It is, however, possible that even after the restructuring, that default could result in a liquidation (e.g. even though the facility is completely built and rights to IP are part of the asset package, no one wants to buy it because the product remains uncompetitive at the prices necessary to make it profitable).
  - DOE may choose to model additional scenarios to reach its expected value.
- Preliminary analysis on our end suggests that the Expected Value of recovery scenarios post-restructuring may be lower than the liquidation value of the project prior to restructuring. That conclusion suggests to us that this is not a work-out.