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Choose Wisely: Gross vs. Net Reallocation Methods in Renewable Energy Partnership Structuring

San Francisco, CA (December 21, 2007)—In a recent case study on partnership deal structuring, Advantage for Analysts (“Advantage”) Principal, Dennis Moritz, explored the impact of Gross and Net reallocation methods on financial returns and deficit restoration obligation (“DRO”) risk. The gross reallocation method for limiting capital account deficits, although more complex to model, created significantly greater benefits to all parties.

To examine the impact, the case study, “A Case for Partnership Reallocation Methods” (<http://advantageforanalysts.com/afa-2/partnership-reallocation.pdf>), analyzed the effect of reallocation methods on risk and return. The analysis demonstrated that extending DRO balances can increase returns while increasing risks. The gross reallocation method, however, helps mitigate this risk by remedying DRO balances quicker than the net reallocation method.

“Although both methods comply with the U.S. Tax Code, modelers may be unaware of the limitations of the net reallocation method; or they may want to avoid the greater effort associated with modeling the gross reallocation method”, commented Mr. Moritz. “Our study demonstrates that the net reallocation method can hinder the development of a viable structure or limit yield and/or risk objectives. The gross reallocation method, however, increases the likelihood of developing feasible deal structures.”

About Advantage for Analysts® LLC, <http://www.advantageforanalysts.com>
A financial structuring and analysis software firm located in San Francisco that provides solutions for Fixed Income Asset Management and Renewable Energy Partnership structuring. Babcock & Brown originally developed Advantage and has been using the software since 1999 to support its private equity and investment advisory business. Advantage became an independent entity in 2004. Mr. Dennis Moritz has been structuring special allocation partnerships for more than fifteen years and helped develop the original PAP structure at Babcock & Brown.