

E X P E R I E N C E • F O C U S • C O M M I T M E N T • R E S U L T S

MORGAN KEEGAN

A graphic element consisting of a horizontal bar with a green-to-blue gradient on the left side, transitioning into a dark blue gradient on the right. A thin white vertical line intersects the bar near the right end, and a thin white horizontal line extends from the intersection point across the dark blue section of the bar.

PRIVATE AND CONFIDENTIAL

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# Financial View of the Biodiesel Industry

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## SECTION 1

# Short Term Economics of Biodiesel

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- Today, the U.S. imports almost 60 percent of the oil it consumes, and overall consumption continues to increase by 1.5 - 2.5% per year. The U.S. Department of Energy estimates that by the year 2015, biodiesel fuel could account for 10 percent of the U.S. diesel market.
- The plague of uneconomically high feedstock costs continues to afflict the biodiesel industry.
- USDA said it expects substantially lower U.S. soybean output next year – should hurt worse.
- The agency expects biodiesel production capacity to reach up to 1.7 billion gal/yr by the end of 2007.
- These economics are going to constrain capacity coming on line.
- Overall diesel prices at the rack started to sag again late last week.
- On average, B100 at the rack dropped 1.3cts week-to-week, running just south of \$3.23/gal compared to \$2.14/gal diesel prices.
- In addition to the widening of the differential over the last few months between biodiesel and petro diesel, soy oil has remained at historically high levels - .32 to .35 cents

## Simple Math

.35 cents (feedstock) \* 7.5 (conversion) = \$2.63 + \$.40 (processing) = \$3.03 **THIS CREATES A TIGHT MARKET**

# What Does This Mean to the Capital Markets

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- Capital is picky and loan-to-value ratios are coming down – equity is requiring higher returns, mezzanine debt is getting expensive and senior lenders are slowing down the pipeline.
- Projects are being shelved – especially greenfield projects.
- The explosion of the average biodiesel business plan has become extinct.

## Projects need something special to get funded today -

- Cost of entry advantage – brownfield site – better or new technology
- Time to market advantage – shorter construction period – retrofit of existing facility
- Operating cost advantage – ALMOST COMPLETELY CENTERS AROUND FEEDSTOCK
- Deep pocket advantage – wealthy, long term partner who believes in the industry and will wait out the ups and downs

## Morgan Keegan - Services Offered by Division

### Equity Capital Markets

- Investment Banking
  - o Public Equity Capital
  - o Mergers, Acquisitions and Divestitures
  - o Private Equity Capital
  - o Mezzanine Fund
- Institutional Equity Sales
- Equity Trading
- Equity Research

### Fixed Income Capital Markets

- Fixed Income Capital Underwriting
- Institutional Fixed Income Sales
- Fixed Income Trading
- Fixed Income Research

### Private Capital Services

- Retail Brokerage
- Estate Planning
- Portfolio Management

### Investment Advisory

- Company-sponsored Mutual Funds
- Asset Management
- Employee Benefit Plans

# Core Private Equity Services

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## Private Equity

- ❖ Capital for rapidly growing private companies
- ❖ Private investments in public entities (“PIPE”)
- ❖ Secondary sales of private securities

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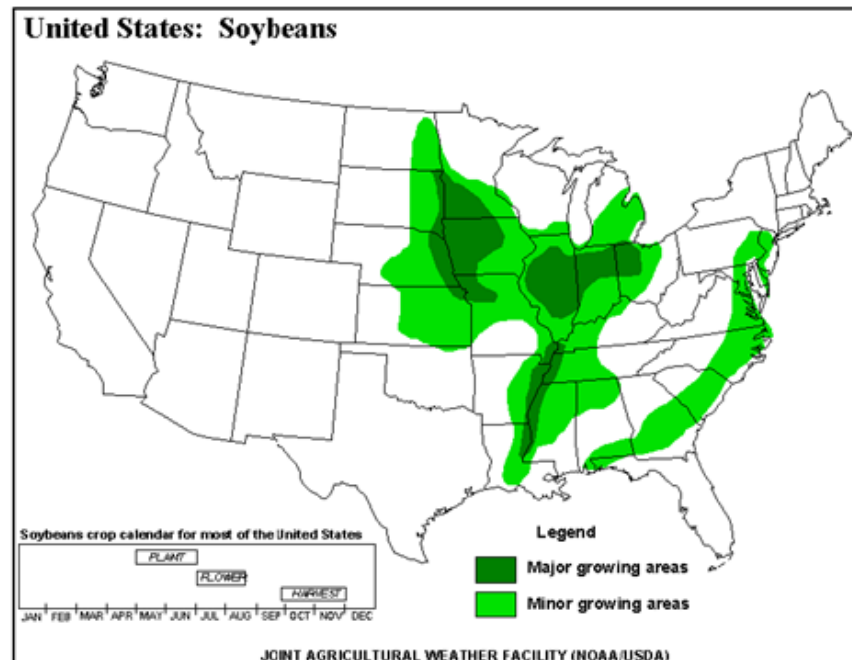
## Private Equity Considerations

- ❖ Projected growth rates and growth drivers
- ❖ Market size
- ❖ Industry and relevant trends
- ❖ Product cycle and timing
- ❖ Operating margins
- ❖ Defensibility of market niche

# Tennessee Has an Advantage

*Investments in biodiesel facilities in Tennessee are attractive for many reasons:*

- The significant growth currently being experienced by the biodiesel industry will be fueled by outputs from this region. In addition, the central location of the state along with transportation advantages provide favorable economics;
- Government and individual State mandates for further reduction of sulfuric content to 15 parts per million (ppm) maximum by 2007; the addition of small amounts of biodiesel (2-5% by volume) is one of the most economical options to alleviate the lubricity problem of ultra low-sulfur diesel, resulting in an annual demand of over 500 millions gallons of biodiesel;
- The abundance of local demand for diesel fuel; The transportation advantages inherent to the Mid South transportation infrastructure; the close proximity to large scale soybean production (a key input to creating a low cost production model).



# The Checklist for a Successful Project

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Key items to a prospect's business plan include, but are not limited to the following:

1. A site has been selected and purchased/leased
2. The site contains rail/water access as transportation is a key driver of the economics
3. A business plan and economic models have been considered
4. A competent, experienced management team has been retained for the project
5. The project construction or retrofitting has been planned
6. A plan has been developed to mitigate the volatility in the price and availability of feedstock. Hedging strategies can be utilized on a portion of the inputs and outputs through MKFPC and long term soybean and off take arrangements can be structured
7. The management team has considered the impact of the remote possibility of declining overall energy prices. Energy supplies over the long term are forecasted to constrain further as the Asian block of countries continue their economic revolution
8. The management team has considered the potential for a reduction in diesel fuel prices which would make biodiesel less attractive
9. The ability to get to market quickly through a retrofit or strategic relationship with construction provider
10. Supply and off take arrangements are in place

**THE FIRST SIX ITEMS ABOVE ARE KEY TO EVERY PROJECT AND THE MOST CRITICAL FOUNDATION. IF THESE ARE IN GOOD ORDER WE USUALLY ADVISE THE CLIENT TO MOVE THROUGH THE REMAINING POINTS AS WE DEVELOP THEIR IDEAL CAPITAL STRUCTURE. THE FINAL STEP IS RESERVED FOR PLANNING UPON PROJECT LAUNCH IN MOST CASES.**

# Morgan Keegan Overview

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## SECTION 2

# Morgan Keegan Overview



- Listed on New York Stock Exchange; symbol RF
- Market capitalization in excess of \$15 billion
- Included in S&P500, Fortune 500 and Forbes 500
- Over \$80 billion in assets
- Among 15 largest financial services providers in the nation
- Approximately 16,250 employees

## Morgan Keegan Quick Facts:


- **Headquarters:** Memphis, TN
- **Offices:** 250 in 18 states and many metropolitan areas, including New York, Chicago, Atlanta, Boston and other cities throughout the Southeast and Midwest
- **Employees:** Over 3,000
- **Registered Reps:** Over 1,000
- **Wholly-owned subsidiary of Regions Financial Corp.**

### Morgan Keegan

Morgan Keegan & Company, Inc.  
Members New York Stock Exchange, SIPC

- Full-service Investment Bank
- Equity Capital Markets
- Fixed Income Capital Markets
- Private Client Services
- Investment Advisory



- Commercial and retail banking
- Approximately 1,400 offices
- Geographic footprint in the South, Southeast, Texas and parts of Midwest
- Recent merger with  UNION PLANTERS BANK



- Commercial and personal insurance broker
- Ranks among 50 largest insurance brokers in the United States
- Founded 1928

## Energy Practice - Overview

- Since the inception of Morgan Keegan's Energy Group, the firm has dedicated significant time and effort to raising growth capital and providing mergers and acquisitions advisory services for its clients in the energy industry.
- Since 1994 our Energy Group has managed or co-managed in excess of \$3 billion in equity offerings including 9 initial public offerings and 36 follow-on offerings.
- The Energy Group has served as exclusive financial advisor to several prominent middle-market energy companies, orchestrating a wide variety of transactions.
- Recognizing the importance of the energy industry in the economy and from an asset allocation perspective, we are strongly committed to advocating the merits of investing in the industry.
- As a result of our transaction experience, Morgan Keegan is recognized as a leader among investment banking firms with an energy practice.
- In addition to investment banking experience, Morgan Keegan Energy Group members also have industry experience.
- The Energy Group has transaction experience in diverse sectors, including oil field services, exploration and production, offshore construction and field development and distributed power technology.
- In 2005, Morgan Keegan acquired Albrecht & Associates, Inc. (AAI), a leading oil and gas asset divestment firm.