

### Item 1: Cover Page

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This brochure provides information about the qualifications and business practices of USRG Management Company, LLC ("USRG"). If you have any questions about the contents of this brochure, please contact us at 310-586-3900. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about USRG also is available on the SEC's website at <http://www.adviserinfo.sec.gov>.

### Item 2: Material Changes

The last annual update to this brochure was made in March, 2014. Upon further research, USRG hereby amends Item 5(E) in order to provide a more thorough description of compensation and amends Item 6 to provide additional examples of potential conflicts of interest and the manner in which USRG addresses these conflicts.

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#### Item 4: Advisory Business

- A. USRG provides advisory services to the following private equity funds: US Renewables Group, LLC ("Fund I"), USRG Power & Biofuels Fund II, LLC and USRG Power & Biofuels Fund II-A, LLC (collectively, "Fund II"), and USRG Power & Biofuels Fund III, LLC and USRG Power & Biofuels Fund III-A, LLC (collectively, "Fund III"). USRG was founded in 2003 and currently has approximately \$769 million of capital under management. USRG is wholly-owned by US Renewables Holdings, LLC ("Holdings"). The 25% or more owners of Holdings are as follows:

38.542% - Rusheen Capital Partners, LLC (Ownership Code – C)  
Rusheen Capital Partners, LLC is owned 100% by James AC McDermott

28.264% - Lee Bailey (Ownership Code – C)

25.694% - Millwood Energy Holdings, LLC (Ownership Code – C)  
Millwood Energy Holdings, LLC is owned 100% by Jonathan Koch

- B. The primary purpose of the partnership is to identify and participate in capital investments through the acquisition of debt and equity securities in companies that primarily engage in renewable power generation, clean fuel production, and renewable power and clean fuel infrastructure projects. In furtherance of the foregoing, the partnership may engage in all activities and transactions as may be necessary, advisable, or desirable to carry out its objectives. USRG has made 23 diversified investments across three private equity funds in the renewable power, biofuels, and renewable infrastructure sectors. Examples of renewable power investment advice include geothermal, biomass, wind, solar, hydro and emerging technologies. Examples of biofuels investment advice include ethanol, biofuels and emerging technologies. Examples of renewable infrastructure sector advice include biofuels storage, geothermal drilling services and emerging technologies.
- C. USRG does not tailor its advisory services to the individual needs of clients. Clients may not impose restrictions on investing in certain securities or types of securities beyond what is outlined in the respective limited partnership agreements of the private equity funds.
- D. USRG does not participate in wrap fee programs by providing portfolio management services.
- E. As of March 28, 2014, USRG manages approximately \$769 million of client assets on a discretionary basis according to the directives and restrictions outlined in the respective limited partnership agreements.

## Item 5: Fees and Compensation

- A. For Fund I, the management fees are in an amount equal to 1.5% of the sum of the cost basis of the then USRG-owned investments. The management fees are paid in semi-annual installments. Further, USRG may receive certain monitoring fees, board fees and other fees from portfolio companies in performing its duties to Fund I. Lastly, USRG, as further described in Item 6, receives performance-based fees in the form of carried interest.

For Fund II, the management fees are in an amount equal to 2.0% of the sum of (i) funded capital contributions and (ii) capital committed for the purposes of funding grandfathered investments less the aggregate amount of funded capital contributions attributable to realized investments. The management fees are paid in quarterly installments. Also, pursuant to the Fund II limited partnership agreement, USRG may receive certain transaction fees, monitoring fees, board fees and other fees from third parties or portfolio companies in performing its duties to Fund II (the "Transaction Fees"). After certain costs and expenses incurred by USRG are applied to offset the gross Transaction Fees received, 80% of the net Transaction Fees shall be applied to, and in effect reduce, the management fee otherwise payable through the term of Fund II. Lastly, USRG, as further described in Item 6, receives performance-based fees in the form of carried interest.

For Fund III, in accordance with the limited partnership agreement, commencing on the initial closing and continuing through no later than December 31, 2016, the partnership shall pay an annual management fee in an amount based on 2.0% of the total capital commitments of the partnership, excluding 86.45% of the general partner capital commitment. Thereafter, the management fee shall be in an amount equal to 1.75% of the sum of (i) funded capital contributions that have not been returned to the limited partners (excluding funded capital contributions attributable to (x) management fees, (y) organizational expenses and (z) general partnership expenses that are not related to the acquisition, holding, monitoring and disposition of investments) and (ii) capital committed for the purposes of funding grandfathered investments and follow-on investments. The management fees are paid in quarterly installments. Also, pursuant to the Fund III limited partnership agreement, USRG may receive certain transaction fees, monitoring fees, board fees and other fees from third parties or portfolio companies in performing its duties to Fund III (the "Transaction Fees"). After certain costs and expenses incurred by USRG are applied to offset the gross Transaction Fees received, 90% of the net Transaction Fees shall be applied to, and in effect reduce, the management fee otherwise payable through the term of Fund III. Lastly, USRG, as further described in Item 6, receives performance-based fees in the form of carried interest.

- B. USRG does not deduct fees from clients' assets. Management fees are called from investors pursuant to the calculation and frequency noted in 4(A) above.

- C. In lieu of contracting outside consultants, USRG may provide certain services to Fund I, Fund II, Fund III and portfolio companies that are defined as company or partnership expenses in the underlying partnership agreements in exchange for a fee.
- D. For Fund I, fees are paid semi-annually in advance. For Fund II and Fund III, fees are paid quarterly in advance. The limited partners have the capacity to remove the general partner, and thus USRG, from providing advisory services. USRG would only be entitled to fees for the period in which it provided advisory services.
- E. While the Fund I, Fund II and Fund III governing documents permit USRG to accept what may be considered compensation for the sale of securities or other investment products, it is not typical for USRG or any of its supervised persons to do so. The sole instance in which USRG was paid a "closing fee" in connection with a Fund investment was the 2011 loan ("Loan") made by USRG Holdco IX, LLC ("Lender") to Reg Albert Lea, LLC ("Borrower"). The Loan involved a short-term \$10 million advance to the Borrower, evidenced by a promissory note, to fill a temporary gap in the Borrower's working capital caused by the Borrower's purchase of a new facility. The Loan bore interest at 12%, was due and payable less than five months after the Loan was made and was secured by all of the assets of the Borrower as well as the ownership interests in the Borrower.

#### Item 6: Performance-Based Fees and Side-By-Side Management

As with traditionally structured private equity funds, through the general partner, supervised persons accept performance-based fees through carried interest of 20% of the realized capital gains on the assets of the clients. Also, the structure of management fees and other fees related to Funds I, II and III are similarly structured. The similar arrangement of performance-based fees, management fees and other fees helps alleviate conflicts of interest when USRG is performing its advisory services. Further, these fee structures were negotiated between the clients and USRG at the onset of the funds, which were formed in succession. While conflicts of interest may be limited due to the similar fee arrangements existing across the funds, and due to the funds being formed in succession and are at different stages in their lives, certain conflicts of interest may become present. Pursuant to the underlying agreements between USRG and its clients, matters involving conflicts of interest shall be brought to the attention of the board or advisory committee as appropriate. Depending on the materiality of the conflict of interest, the board or advisory committee shall be notified or USRG shall obtain approval for the related transaction.

Theoretically, there could be potential conflicts of interest that might arise during various stages of a fund. During the fund-raising stage, USRG has been careful not to offer any preferential terms to placement agents or other third party consultants and only has issued marketing materials with accurate and informative representations regarding returns on previous investments. During the investment stage of a fund, there are potential opportunities for insider

trading. USRG addresses this potential conflict by enforcing a comprehensive insider trading policy and training employees regarding securities regulations. During the management stage of a fund, potential conflicts may arise regarding allocation of investment opportunities and employee time. To offset these concerns, USRG conducts weekly team meetings to ensure each investment in each fund is carefully evaluated by the entire USRG investment committee. USRG also is careful to provide comprehensive reporting to investors regarding PE fund performance and to avoid ignoring or underweighting portfolio companies that underperform.

#### Item 7: Types of Clients

Fund I – The clients who make up Fund I include an investment company and a series of trusts. There were no requirements for opening or maintaining an account other than being a qualified investor and being able to fulfill the entire capital commitment obligation pursuant to the terms in the limited liability company agreement entered into at the financial closing of Fund I.

Fund II – The clients who make up Fund II include investment companies, trusts, pension plans and endowments. There was a minimum investment of \$5,000,000, but a lesser commitment amount could be accepted at the discretion of the general partner. There were no further requirements for opening or maintaining an account other than being a qualified investor and being able to fulfill the entire capital commitment obligation pursuant to the terms in the limited partnership agreement entered into at the financial closings of Fund II.

Fund III – The clients who make up Fund III include investment companies, trusts and pension plans. There was a minimum investment of \$10,000,000, but a lesser commitment amount could be accepted at the discretion of the general partner. There were no further requirements for opening or maintaining an account other than being a qualified investor and being able to fulfill the entire capital commitment obligation pursuant to the terms in the limited partnership agreement entered into at the financial closings of Fund III.

#### Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

##### **Methods of Analysis and Investment Strategies**

USRG's investment process is structured to capitalize on the extensive and differentiated expertise of the firm's investment professionals.

*Deal origination* - USRG believes that a strong deal origination process is key to unlocking high quality investment opportunities in the renewable energy industry. To that end, USRG will seek to generate attractive deal flow, often direct in nature, primarily

through a combination of its deep industry networks, including its proprietary strategic relationships, and its targeted sub-sector research.

*Deep industry relationships* - Through the investment professionals' collective 120 years of experience in the energy industry, both as principals and advisors, the USRG team has developed an extensive network of industry relationships that include senior management teams, entrepreneurs, investment and commercial bankers, lawyers, consultants and other service providers. USRG sources a majority of its investment opportunities from this network of contacts, and from the firm's proprietary network of strategic relationships with industry developers, operators, engineers, consultants and construction firms.

*Targeted sub-sector research* - The USRG team spends a considerable amount of time and resources performing extensive research on the renewable energy industry, allowing the team to identify a number of sub-sectors which they believe have the most attractive investment opportunities. This targeted research equips USRG with a fundamental knowledge of sub-sector dynamics, allowing the firm to identify and pursue attractive investment opportunities. The investment professionals' deep domain expertise affords USRG the ability to make more informed investment decisions and helps promote USRG as a leader and expert in the renewable energy industry.

In addition to leveraging its network and industry research, USRG is also actively involved in attending and presenting at industry conferences, keeping membership in targeted trade groups, working closely with professional service providers, pro-actively contacting asset owners, and maintaining a web and press presence to field inbound funding requests.

*Due diligence and decision making process* - USRG employs a highly disciplined, multi-staged approach to its investment valuation and decision making process designed to focus on: (i) management; (ii) operations; (iii) market opportunity; (iv) fuel supply; (v) power pricing; (vi) customers; (vii) transportation costs; (viii) equipment and technology risks; (ix) regulatory issues; (x) contracts; and (xi) the overall business model. Each potential investment must first be reviewed by the firm's business development team, which helps direct the due diligence process by serving as an initial filter for all potential investment opportunities. The business development team is led by one of the firm's partners, who is supported by the rest of the USRG team, as appropriate. This team is responsible for initially screening potential investments and determining the appropriate investment professionals to lead the due diligence and deal execution process going forward. After a potential investment has been reviewed by the business development team, it is then passed along to the appropriate sub-sector team for an initial due diligence review. During this phase, the sub-sector teams will perform additional research on the developer and/or management team, the assets, and the technology and/or application, as necessary. The teams will seek to answer specific questions about the potential transaction to determine, among other things, the credibility of the

management/development team, the feasibility of the technology or application, and the expected investment returns in base-, low- and high-case scenarios.

Once an investment passes the initial due diligence phase, a two to three page preliminary investment memo is issued to the rest of the USRG team for discussion on the firm's weekly call. It is in this forum that all members of the USRG team are introduced to the investment and weigh in on its potential merits and challenges. Following a successful team-wide discussion of the opportunity, a second stage of due diligence is initiated. In this stage, the sub-sector teams will dig deeper into the merits of the opportunity, incorporating suggestions produced from the weekly calls.

As appropriate, USRG will also engage legal, technical, and industry experts to evaluate specific aspects of each potential investment. Once USRG's due diligence teams have become more comfortable with an investment, an eight to ten page final investment memo is drafted to be presented to the investment committee. The investment committee, which meets monthly, is comprised of the five USRG partners, and its meetings are attended by all of the firm's investment professionals. A decision is then taken by the investment committee to authorize the completion of the transaction, or continue with due diligence, focusing on specific issues raised.

*Structuring* - USRG structures its investments to maximize opportunities to extract value through multiple monetization options, and stages its investments to provide the fund downside protection in the event that a project experiences difficulties in reaching completion. Specifically, the firm's experience in project finance is important when negotiating with banks to create a flexible capital structure that will allow USRG to grow a business or project unencumbered. USRG will seek to invest through a variety of equity and equity-like instruments, typically seeking a senior position in the capital structure and/or outright control.

*Investment Oversight* - The commercial and technical expertise of USRG's professionals is essential to value creation post-investment. USRG's investments are typically operational entities managed through a limited liability company structure in which the limited partners of these limited liability companies (including the funds) will generally retain control over such business issues as: (i) major capital or operating expenditures; (ii) operator contracts; (iii) sales or purchases of assets or stock; (iv) financings; (v) related-party transactions; and (vi) certain material contracts. Several investments are platform companies wherein management teams selected by USRG manage and operate the assets. In all cases, USRG retains board representation and participates actively in executive management decisions.



*Commercial expertise* - USRG's involvement in the commercial aspects of a project centers on contract negotiations, where the team has substantial experience. Projects that are not yet generating cash will often utilize USRG's guidance negotiating power purchase agreements and fuel supply contracts, as well as navigating regulatory issues to secure project permits.

*Technical expertise* - USRG's involvement in the technical aspects of a project begins with the selection and oversight of an operating team. USRG will develop operating agreements that include incentives for an operating team when certain milestones are achieved. These milestones will usually be based on health and safety compliance statistics, the amount of up-time for a given plant, and targeted levels of EBITDA. The firm's technical contributions may also include introducing opportunities to boost an asset's potential output by implementing a state-of-the-art technology, or through the strategic acquisition of additional assets.

*Evaluating exits and potential monetization events* - USRG believes its investments will have excellent exit prospects, as renewable energy fleets are of increasing strategic importance to the utility industry, and because USRG perceives a growing demand from public market investors for pure-play opportunities in renewable energy. Exit alternatives will include private sales to strategic or financial buyers, the securitization of income streams associated with certain investments, the return of capital through recapitalization transactions, and the distribution of cash flows generated by operations. The public markets may also provide additional exit opportunities with respect to larger-scale investments.

USRG targets investments in lower-middle-market companies or projects that either currently are, or are expected to become, strong cash flowing assets within 18-24 months, and the firm will generally seek a controlling position. Investments will typically take the form of: (i) an acquisition of existing plants/operating assets; (ii) re-powering, restarting and expanding existing plant assets; (iii) late-stage development projects; (iv) renewable power and clean fuel infrastructure investments; and (v) company level investments in selective late-stage enabling technologies that USRG believes will drive market growth and portfolio profitability. USRG's approach to investing is defined by: (i) focusing on intensively researched core sectors; (ii) aggregating lower-middle-market assets to scale; (iii) leveraging proprietary strategic relationships; (iv) structuring paths to cash flows; and (v) creating value through the team's industry expertise.

Further, the funds will seek to generate superior risk-adjusted net investment returns by investing in a diversified portfolio of renewable energy assets and development projects. USRG will continue to target investments that are asset-focused with low technology risk and seek to capitalize on opportunities throughout the renewable energy value chain. USRG intends to maximize the value of its portfolio by optimizing the capital structure of its investments,

installing world class management teams, controlling feedstock inputs, focusing on growth and platform development opportunities, managing and driving down project management costs, and identifying and implementing state-of-the-art, cost-competitive technologies. Consequently, USRG believes that its investments will have the ability to generate current income as well as capital gains through a variety of monetization events and exit opportunities.

## **Risk of Loss**

USRG's investment process is structured to capitalize on the extensive and differentiated expertise of the firm's investment professionals.

The following were the risk disclosures included in the private placement memorandums for Funds II and III. While Fund I did not have a private placement memorandum, the risks associated with its investments are the same.

Prospective investors should carefully consider, among other factors, the matters described below, each of which could have an adverse effect on the value of interests in the fund. As a result of these factors, as well as other risks inherent in any investment or set forth elsewhere in this private placement memorandum, there can be no assurance that the fund will meet its investment objectives or otherwise be able to carry out its investment program successfully. An investment in the fund should only be considered by persons who can afford a loss of their entire investment. There is no assurance of any particular rate of return or that losses will not occur.

### ***Risks Related to the Funds Investment Program***

#### ***Risk of Capital Loss; No Assurance of Investment Return***

An investment in the fund is speculative, involves a high degree of risk and is suitable only for investors of substantial means who have no immediate need for liquidity of the amount invested and who can afford a risk of loss of all or a substantial part of such investment. No guarantee or representation is made that the fund will achieve its investment objectives or otherwise be able to carry out its investment strategy successfully. Fund returns may be unpredictable; accordingly, an investment in the fund is unsuitable as the sole investment for a prospective investor. There can be no assurance that the fund will realize net profits or achieve returns commensurate with the risks associated with its investments or that the fund will not experience losses, which may be substantial. Accordingly, an investment in the fund is unsuitable as the sole investment for a prospective investor.

### *Industry Risks; Regulatory Volatility; Commodity Risks*

The fund will focus on investments in the renewable power and renewable fuel industries. This industry, in general, is challenged by many factors, including, without limitation, rapidly changing market conditions and/or participants, fluctuations in the competing and underlying prices of oil, natural gas and agricultural commodities, adverse economic conditions impacting customers and generally wary investors in the public marketplace. Instability, fluctuation or an extended decline within the industry may not be balanced by investments in other industries not so affected.

Despite recent deregulation in certain segments of the energy industry, the renewable energy industry remains subject to complex energy, environmental, and other governmental laws and regulations. Existing laws and regulations may be revised, reinterpreted, relaxed or even repealed, or new laws and regulations may become applicable. The effect of any change in any applicable regulatory regime is uncertain and can be adverse to the fund and its investments.

Certain renewable investments involves significant commodity risk such as the price of corn, wood and other commodities on the input side and fluctuating prices for ethanol, gasoline, bio-diesel and electricity on the output side. Efforts to hedge these risks are unproven and may be entirely unsuccessful.

### *Compliance with Government Regulations/Environmental Regulations*

Investing in renewable energy requires compliance with a variety of federal, state and local laws and regulations. These regulations may change from time to time for a variety of reasons most of which the fund can neither control nor anticipate. A change in a regulation may impact an asset in a number of ways including prohibiting its continued operation or changing its fundamental economics so that it becomes uneconomical to operate. Tax and other government incentives currently provided or anticipated to be provided to renewable energy may be scaled back or eliminated.

### *Construction Risk*

The fund's investment projects may involve significant construction risk, including the risk of substantial delay or increase in cost due to a number of unforeseen factors: political opposition, regulatory and permitting delays, materials price increases, delays in procuring sites, strikes, disputes, environmental issues, force majeure or failure by one or more of the infrastructure investment participants to perform in a timely manner their contractual, financial or other commitments.

### *Operating Risks*

Operating the assets to be acquired by the fund will involve operating expertise that may not reside at the asset level. As a result, the fund will need to supplement or often obtain such operating expertise.

### *Off-take Agreements for Renewable Energy and Clean Fuels*

The renewable energy assets acquired by the fund will require the sale of the power they generate to energy consumers such as local and municipal utilities. The process by which power is sold to utilities is complex and often requires economic and political considerations that may be outside the control of the fund. Moreover, in most markets, a single utility will be the primary customer and the loss of such a customer could have a material adverse effect on the fund. There can be no assurance that the fund can enter into power purchase agreements with these entities and if so, on terms advantageous to the fund.

### *Risks Associated with Regulatory Programs and Reduction in Fossil Fuel Prices*

Currently, utilities are purchasing renewable power in response to RPS programs. The reduction or elimination of RPS programs may reduce a utilities desire to purchase renewable energy if other equally affordable power becomes available.

The sale of ethanol and biodiesel products require that large fuel retailers incorporate such products into existing fuels and distribute them to fuel consumers. Currently, various state mandates require that ethanol be added to conventional gasoline. There can be no assurance that such mandates to blend ethanol with gasoline will continue; that the price of gasoline will warrant the additional costs associated with fuel additives such as ethanol, or that other additives less expensive than ethanol will not be more competitive and developed. Biodiesel currently enjoys significant price supports from the U.S. federal government which may be modified or eliminated.

The operating assets being acquired by the fund produce power and fuel at prices that are currently competitive with fossil fuels. If the price of fossil fuels such as coal, oil and natural gas were to decline such that renewable energy and clean fuels were not competitive, the fund may not be able to sell the energy/fuel it produces, if any at all, at prices forecasted when the acquisition was made.

### *Past Investment Performance*

The fund has no operating history. Past performance of investment entities associated with the fund, the senior investment professionals and their affiliates is not necessarily indicative of future results. There also can be no assurance that projected or targeted returns for the fund will be

achieved. Investors will be relying on the ability of the fund to identify attractive investment opportunities, acquire and operate them successfully.

#### *Lack of Sufficient Investment Opportunities; Competition*

It is possible that the fund will never be able to fully deploy the available capital if insufficient attractive investment opportunities are not identified. In addition, the business of identifying and structuring such transactions is highly competitive and involves a high degree of uncertainty. There are a number of experienced individuals who specialize in private equity investments, including investments of the type and in the industry segments in which the fund may seek to invest. Many of these individuals are well-established and have greater capital resources than the fund. There is no assurance that the fund will be able to take advantage of any attractive investment opportunity that is identified.

#### *Concentration of Investments; Limited Diversification*

The fund will participate in a limited number of investments. By virtue of the fund's investment focus, those investments will be concentrated in the renewable energy industry and may be even further concentrated in a limited number of segments within such industry. To the extent that the capital raised is less than the targeted amount, the fund may invest in fewer portfolio companies and thus be even less diversified.

As a result of such concentration of investments, the fund will be vulnerable to an unfavorable business climate affecting the renewable energy sector, one or more particular segments of that sector or one or more portfolio companies. Such an unfavorable business climate may have a disproportionately greater impact on the fund's performance than if the fund's investments were larger or more diversified.

#### *Foreign Investments (Fund III only)*

The fund may make investments in foreign entities. Certain foreign investments involve risks and special considerations not typically associated with U.S. investments. Such risks include the risk of nationalization or expropriation of assets or confiscatory taxation; social, economic and political uncertainty, including war and revolution; dependence on exports and the corresponding importance of international trade; price fluctuations, market volatility, less liquidity and smaller capitalization of securities markets; currency exchange rate fluctuations; rates of inflation; controls on, and changes in controls on, foreign investment and limitations on repatriation of invested capital and on the fund's ability to exchange local currencies for U.S. dollars; governmental involvement in and control over economies; governmental decisions to discontinue support of economic reform programs generally and impose centrally planned economies; differences in auditing and financial reporting standards that may result in the unavailability of material information about issuers; less extensive regulation of securities markets; longer

settlement periods for securities transactions; less developed corporate laws regarding fiduciary duties and the protection of investors; less reliable judicial systems to enforce contracts and applicable law; and certain considerations regarding the maintenance of the fund's portfolio securities and cash with foreign custodians and securities depositaries.

#### *Long Holding Period, Development Risk, Restricted Nature of Investment Positions*

The inherent nature of private equity investing dictates a significant length of time between the initial investment and realization of gains, if any. Investments, if successful, often take up to several years or more to reach a state of maturity and have a successful operating history where disposition is possible.

Investments in the fund will be subject to restrictions on resale because they will involve unregistered securities. In addition, it is expected that most of the fund's investments will be in the equity securities of private companies. As a result, there generally will be no readily available market for a substantial number of the fund's investments, and much of the fund's investments will be difficult to value.

Because of the lack of a readily available market, the fund's investments may decline in value while the fund is seeking to dispose of them. Furthermore, the fund may find it necessary to sell investments at a discount or over extended periods of time. Consequently, it is expected that much of the fund's investments generally will not be sold for a number of years and will remain relatively illiquid and difficult to value. The marketability and value of any such investments will depend upon many factors beyond the control of the fund.

#### *Material Non-Public Information (Fund III only)*

By reason of their responsibilities in connection with the fund and other activities, the senior investment professionals and other personnel of the fund, the general partner and/or the manager may acquire confidential or material non-public information or otherwise be restricted from transacting in certain securities. The fund will not be free to act upon any such information. Due to these restrictions, the fund may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold.

#### *Minority Investments*

The fund generally will invest in majority positions in its portfolio companies. However, in certain circumstances the fund may take a minority position in certain portfolio companies. In the latter case, although the fund will seek to obtain board representation or observer status, such rights may not be obtained and in any event, the fund may not be in a position to exert significant influence or protect its position. The fund will be reliant on the existing management and board of directors, which may include representation of other financial investors with whom the fund is

not affiliated and whose interests may conflict with the interests of the fund. The fund will focus attention on the operations of the companies in which it invests but may not always be successful in achieving the desired results.

#### *Risks from Leveraged Investments*

The fund's portfolio companies may be highly leveraged. Recessions, operating problems and other business and economic conditions may have a more pronounced effect on the profitability or survivability of highly leveraged companies. In addition, rising interest rates may increase portfolio fund interest expenses. In the event any portfolio fund cannot generate adequate cash flow to meet its debt service obligations, the fund may suffer a partial or total loss of its investment in such fund.

Credit availability loosens and tightens at various times in a business cycle. A contraction in the credit markets may result in less available total leverage and more restrictive and expensive financing terms and conditions.

#### *Bridge Financing (Fund III only)*

The fund may provide bridge financing in connection with one or more of its equity investments. The fund will bear the risk of any changes in capital markets, which may adversely affect the ability of a portfolio company to refinance any bridge investments. If the portfolio company were unable to complete a refinancing, the fund could have a long-term investment in a junior security or that junior security might be converted to equity.

#### *Risks from Disposition of Investments*

In connection with the disposition of a portfolio investment, the fund may be required to make representations and warranties about the business and affairs of the portfolio fund typical of those made in connection with the sale of any business or may be responsible for the contents of disclosure documents under applicable securities laws. The fund also may be required to indemnify the purchasers of such portfolio investment or underwriters to the extent that any such representations and warranties or disclosure documents turn out to be incorrect, inaccurate or misleading. These arrangements may result in contingent liabilities, which might ultimately have to be funded by the fund.

#### *Management of Investments; Control Person Liability*

The operations of each of the fund's investments will be overseen by the fund with the assistance of operators hired by the fund or its representatives. Although the fund will be responsible for monitoring the performance of each of its investments and intends to invest in companies operated by strong management teams or operators, there can be no assurance that the existing

management team, or any successor, or operator will be able to operate the investment successfully or otherwise in accordance with the fund's plans.

(Fund III only) The fund is expected to have controlling interests in and the ability to significantly influence many of its portfolio companies. The exercise of control of, or significant influence in, a portfolio company may impose additional risks of liability for environmental damage, products defects, failure to supervise management, violation of government regulations or other types of liability in which the limited liability generally characteristic of business ownership may be ignored. If these liabilities were to arise, the fund might suffer a significant loss.

#### *Third-Party Involvement*

The fund may co-invest with third parties. Such investments may involve risks not present in investments where a third party is not involved, including the possibility that a third party may at any time have economic or business interests or goals which are inconsistent with those of the fund, or may be in a position to take action contrary to the fund's investment objectives. In addition, the fund may be liable for actions of third parties with which they invest.

#### *Projections*

Projected operating results of a fund investment normally will be based primarily on financial projections prepared by such fund's management. In all cases, projections are only estimates of future results that are based upon assumptions made at the time the projections are developed. There can be no assurance that the results set forth in the projections will be attained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material impact on the reliability of projections.

#### ***Risks Related to the Structure of the Fund***

##### *Reliance on USRG Management Team; Limited Operational History*

The investment performance of the fund will depend primarily on the business and investment acumen of the senior investment professionals. The majority of the senior investment professionals has worked together actively as a team only since July 2004 and hence has a limited operational history.

##### *Reliance on Key Personnel*

The degree of success of the fund is dependent upon the participation of the senior investment professionals. The loss of the services of one or more of these individuals could have an adverse



impact on the fund's ability to realize its investment objectives. There can be no assurance that these individuals will continue to serve as senior investment professionals throughout the term of the fund.

#### *Diverse Investor Group*

The limited partners may have conflicting investment, tax and other interests with respect to their investments in the fund. The conflicting interests of individual limited partners may relate to or arise from, among other things, the nature of investments made by the fund, the structuring of the acquisition of investments and the timing of the disposition of investments. In selecting and structuring investments appropriate for the fund, the senior investment professionals will consider the investment and tax objectives of the fund as a whole, not the investment, tax or other objectives of any limited partners individually.

#### *Significant Penalties for Default*

The limited partnership agreement contains significant penalties in the event a fund partner defaults on its capital commitment or other payment obligations, including losing its right to potential distributions from the fund.

#### *Tax Risk*

Tax consequences to the limited partners from an investment in the fund are complex. Potential investors are strongly urged to consult their own professional advisors in this regard.

#### *Lack of Separate Representation*

Irell & Manella LLP represents the fund, the general partner and the manager in connection with the organization of the fund and the offering of the limited partner interests in the fund. Irell & Manella LLP does not represent the limited partners. Irell & Manella LLP may represent the fund, the general partner and the manager with respect to investments of the fund and other ongoing matters. Irell & Manella LLP also represents the manager and its affiliates in connection with other matters. Irell & Manella LLP has not passed upon the adequacy of this private placement memorandum or the fairness of the disclosure herein. Prospective investors must consult with their own counsel with regard to all of these matters.

#### Item 9: Disciplinary Information

There are no legal or disciplinary events to report that are material to a client's or prospective client's evaluation of USRG's advisory business or the integrity of its management.

#### Item 10: Other Financial Industry Activities and Affiliations

10A. USRG and its management persons are not registered, nor do they have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

10B. USRG and its management persons are not registered, nor do they have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

10C. USRG does not have a relationship or arrangement with a related person that is material to its advisory business or to its clients.

10D. USRG is not engaged in business relationships with any other investment adviser that creates a material conflict of interest.

#### Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

USRG has adopted a Code of Ethics that is in compliance with Rule 204A-1 of the Investment Advisers Act of 1940. The purpose of the Code of Ethics is (i) to establish standards and procedures for the detection and prevention of activities by which persons having knowledge of the investments and investment intentions of USRG may abuse their fiduciary duty to USRG and (ii) to address other situations involving potential conflicts of interest relating to Rule 204A-1. USRG distributes its Code of Ethics annually to all of its employees and requires all of its employees to certify annually that they have read the Code of Ethics and that they have complied with its requirements.

USRG also annually distributes its insider trading policy to all of its employees. This policy opposes the unauthorized disclosure of any nonpublic information acquired in the course of employment with USRG and the misuse of material, nonpublic information in securities trading. Each investment professional employed by USRG must provide quarterly updates relating to personal securities holdings and is required to pre-clear certain personal securities transactions in order to help ensure compliance.

The Code of Ethics and USRG insider trading policy will be provided to any client or prospective client upon request.

#### Item 12: Brokerage Practices

USRG does not receive research or other products or services other than execution from broker-dealers in connection with its securities transactions, nor does USRG receive client referrals from broker-dealers or allow their clients to direct brokerage.

#### Item 13: Review of Accounts

USRG's investment committees, comprised of USRG managing directors, regularly review USRG's client accounts and financial plans to assure conformity with the funds' objectives and guidelines. These regular reviews are made to ensure that the funds' investments are performing at acceptable levels. In conducting its reviews, USRG focuses on emerging trends and developments in the renewable energy sector that might impact the profits of one or more of its funds. Reports on gains and losses, interest and cash distributions are reported to USRG's clients at least quarterly.

#### Item 14: Client Referrals and Other Compensation

USRG does not receive economic benefits from a non-client for providing investment advice or other advisory services to USRG's clients. USRG compensates Credit Suisse and Gold Bridge Capital, LLC for providing marketing services in order to attract potential investors for Fund III.

#### Item 15: Custody

City National Bank, with its primary office at 555 S. Flower Street, 12<sup>th</sup> Floor, Los Angeles, CA 90071, acts as the qualified custodian for USRG's client funds and securities.

#### Item 16: Investment Discretion

USRG has discretionary authority to manage securities accounts on behalf of its clients. In all cases, however, such discretion is to be exercised in a manner consistent with stated investment objectives and formation and operating agreements for the particular client fund, including investment committee approval involving the consent of USRG's managing directors to effectuate most binding USRG commitments and advisory committee approval involving the consent of USRG's limited partners for certain actions.

#### Item 17: Voting Client Securities

USRG has adopted a policy regarding proxy voting intended to comply with Section 206 of, and Rule 206(4)-6 under, the Investment Advisers Act of 1940. USRG votes proxies relating to its portfolio securities in the best interest of its clients' limited partners. It reviews on a case-by-case basis each proposal submitted to a stockholder vote to determine its impact on the portfolio securities held by its clients. Although USRG generally votes against proposals that may have a

negative impact on its clients' portfolio securities, it may vote for such a proposal if there exist compelling long-term reasons to do so.

The proxy voting decisions are made by the managing directors of USRG who are responsible for monitoring each of its clients' investments. To ensure that its vote is not the product of a conflict of interest, USRG requires that: (i) anyone involved in the decision making process disclose to the Chief Compliance Officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (ii) employees involved in the decision making process or vote administration are prohibited from revealing how USRG intends to vote on a proposal in order to reduce any attempted influence from interested parties.

Clients may obtain information, without charge, regarding how USRG voted proxies with respect to certain portfolio securities by making a written request for proxy voting information to: Chief Compliance Officer, Derek Y. Bacon, 2425 Olympic Boulevard, Suite 4050 West, Santa Monica, CA 90404.

#### Item 18: Financial Information

USRG has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been subject of a bankruptcy proceeding.

#### Item 19: Requirements for State-Registered Advisers

USRG is not a state-registered adviser.