

Note: I now publish current updates about AEHI on lucidaehi.blogspot.com

November 24, 2010

To: Payette County Planning and Zoning Commision

From: Joe Lucid, Individual Investor

RE: REZONE BY ALTERNATE ENERGY HOLDINGS INC. FOR PROPERTIES LOCATED OFF
BIG WILLOW RD. AND STONE QUARRY RD., PAYETTE, ID

Dear members of the Payette County Planning and Zoning Commission,

Please accept and include as written testimony in the record my following comments and the attached documents about AEHI's rezoning application. All referenced documents are contained in a zip archive you can download at <http://bit.ly/g3JjQU>. Please unpack the archive and file it together with this letter for the record. I will refer to documents in brackets such that [01] will refer to the attachment named starting with "01 -". Please confirm receipt of this letter and the attachments.

This testimony will probably be different from most others you'll receive. Let me explain my background: I'm an investor focusing on the penny stock markets such as the OTCBB and the pinksheets. This area is very attractive for investors because these markets tend to be very inefficient. There are companies which can be bought for a fraction of their fair value and which nobody has ever heard of. But there are also many fraudulent companies that tout themselves as major future business successes, release hyped press releases almost every day, pay others to issue and distribute outrageous forecasts for the company while not having any assets or any business model that holds up to scrutiny.

For a number of reasons which I will outline in this document I believe AEHI is in the second category of companies which don't have a reasonable chance of success. Meanwhile they issue press releases commenting on policy and nuclear issues and they have paid multiple stock promoters to manipulate the public into buying their stock. AEHI's affiliates also seem to be using mechanisms such as wash sales and matched orders in order to directly manipulate the price of its stock.

In my view it doesn't matter for the success of the company whether you will approve this rezoning application. As I will outline there is no chance that they will successfully build a nuclear reactor.

However each step in the approval process in the past has caused many financially illiterate retail investors to purchase more stock in the company. In my view there is no reasonable doubt that these investors will lose their money eventually. Additionally many of Payette county's residents have been caught up in AEHI's manipulations and really assume that a nuclear power

plant will be built in their neighborhood.

They also believe the false claims about future employment opportunities and economic benefits that would come with such a plant. Planning under these false assumptions these residents may make private and business decisions that will not be in their best interest once it becomes clear that no plant will be built. For example they might get an education in nuclear engineering assuming there will be jobs. They might delay reducing the scope of their businesses in the hope that the economy will pick up because of the plant construction and might be driven into bankruptcy when these expectations don't materialize.

AEHI has already been reported to the FBI and the SEC by multiple people and on several occasions. I have no doubt that an investigation is underway and eventually a case will be brought against the company and Don Gillispie. However you now have the responsibility to prevent AEHI from inflicting long term financial and emotional pain onto your county's residents and other naive retail investors. I believe you have to reject the rezoning application or at least suspend it until you have had a chance to have a discussion with a trustworthy investment advisor or penny stock fraud specialist about the issues I will raise in this letter.

Before we start I need to explain the motivations people have for creating a company that doesn't have a chance to succeed, to misrepresent the facts to retail investors and to pump the stock price by paid promotion and direct stock price manipulation. At the core this always comes down to creating opportunity for the insiders of the company to sell shares to retail investors at inflated prices. In other words even though such companies will tout their apparent business field they really are in the business of selling stock to retail investors.

Accordingly such companies often choose fields such as mining, drug development, high-tech product development - really anything in which the failure of the actual business only becomes apparent after a long time. This gives the operators ample opportunity to extract millions of dollars before it becomes clear that they've failed.

First lets look at how AEHI came into existence. In September 2006 AEHI was created as result of a reverse merger of Sunbelt Energy Resources into Nussentials Holdings Inc. In a reverse merger an existing company with publicly traded stock (Nussentials) which is no longer operating merges with another one (Sunbelt). The objective is to have publicly traded shares which is a benefit in raising capital. While a reverse merger can be a legitimate way to go public it is also the preferred mechanism for scam companies to come into existence [01].

Lets look at who was involved in setting up the company as well as which claims AEHI made at the time and how realistic they turned out to be.

Just a few months after AEHI went public [02] in 2006, records show, the company teamed up with an apparent violator of securities laws when first pursuing its ambitious plans to build a nuclear power plant. At the time, the Owyhee Avalanche reported, AEHI indicated that it had

won the support of an entire group of local farmers interested in partnering with the company on its big power project [03].

“They had formed a co-op, but ... it was just in name only,” AEHI CEO Donald Gillispie later admitted in a sworn deposition that recently surfaced on the Internet [04]. “The only guy I really knew – it was the guy that I remember – is Bob Sparrow.”

Gillispie went on to describe Sparrow as a former Idaho farmer who had since relocated to Salt Lake City. Years earlier, the U.S. Securities and Exchange Commission identified Robert D. Sparrow of Salt Lake City as a “previously enjoined securities violator” [05] when sanctioning him for alleged transgressions once again [06]. In that case, the SEC accused Sparrow of deceiving investors – through misleading financial statements and forged audit reports – and permanently barred him from ever serving as an officer or a director of any publicly traded company again.

A few years after that SEC crackdown, court documents show, Sparrow pleaded guilty to wire fraud and received a two-year prison sentence (followed by another three years of supervised release) as punishment for his crime [07].

Since then, several locals have portrayed that man as the same one who originally partnered with AEHI just after the company went public. AEHI listed “Robert Sparrow” as a 2007 recipient of free company stock in a past filing [08], Internet records show, but otherwise stopped mentioning his name long ago.

AEHI forged deals with other parties tainted by criminal records as well. For example, regulatory filings show [08], AEHI repeatedly sold big chunks of discounted stock to Rainmaker Ventures – a firm linked to a pair of reported felons – the same year that it awarded Sparrow his free shares.

Hunter Carr and Paul Thayer, identified as ex-cons by at least two different publications, have both surfaced as limited partners at Rainmaker Ventures [09] in the past. Hunter Carr was also the CEO of ITIS Holdings. Former and current ITIS Holding employees managed and controlled Nussentials, AEHI’s predecessor and Rainmaker Ventures owned 5% of the stock when AEHI was created [01].

The Toronto Star reported [10] that Carr and Thayer had been sentenced to prison for financial-related crimes in a story that appeared in 2002, while The New York Law Journal covered those convictions in a review of the case five years later [11]. The latter report surfaced in 2007, the very year that Rainmaker Ventures -- where Carr and Thayer had served as limited partners -- kept buying AEHI stock and established a big financial stake in the company.

Regulatory filings show that the company boasted all sorts of remarkable inventions [01]. AEHI claimed that it had developed a breakthrough fuel additive that could slash the costs of natural

gas-powered electricity, for example, and that it was also creating mini reactors that would “revolutionize nuclear power in an urban setting.” Even better, the company said that it was poised to become “the first company to harness the natural energy delivered in a bolt of lightning” – a goal later portrayed as “hopeless” by a national lightning expert interviewed by The New York Times [12]. Additionally AEHI claimed to have developed a safe and effective system for removal of CO₂ from the exhaust of combusted fuels and convert coal to diesel. None of these inventions went anywhere.

The business of building and operating nuclear power plants is very capital intensive. AEHI estimates the cost to be \$10B in their SEC filings [14], while communicating a cost of \$5B - \$8B to its shareholders [13] (this pattern of stating different version of the facts to the SEC and retail investors is pervasive). So far AEHI has announced four sources of financing:

In mid-2007, AEHI suddenly announced [15] that an outfit known as Cobblestone Financial Group had agreed to secure a handsome \$3.5 billion for the company’s nuclear power plant. Within weeks of that news, however, the Associated Press [16] had raised questions about Cobblestone – which normally caters to small operations like bars and gas stations – and its ability to fund such a deal. One day before this deal was announced (on 6/25/07) AEHI issued Cobblestone CEO Matteson, Lyndon III 100k shares [08]. The announcement drove the stock up 100% yet the financing wasn’t believable and never came through.

Later that year, AEHI announced a more modest \$150 million funding deal with a firm called SilverLeaf Capital Partners [17]. This spring, records show [18], SilverLeaf Capital President Shane Baldwin wound up charged with securities fraud for alleged misconduct related to a separate investment deal. (Baldwin managed to escape jail time, The Salt Lake Tribune reported, by repaying his alleged victims in full.)

Meanwhile, local news coverage reveals, AEHI went on to ink yet another financing deal. In mid-2008, the Idaho Business Review reported [20], AEHI tapped a mysterious firm known only as “Powered Corporation” as its new financing partner. Powered had completed no other projects at that point, the newspaper noted, and had seen its previous multibillion-dollar deal – calling for five nuclear power plants in Yemen – killed by allegations of corruption.

Less than a year later, The Oregonian reported, Powered quietly disclosed that it was “winding up” its business and disappeared from the scene [19].

On 10/31/10 AEHI finally announced [20] an equity line with Source Capital Group, only to cancel that agreement the next day and announce an equity line for up to \$150M with Roswell Capital Partners [21]. It’s important to understand how these equity lines work, yet AEHI which under SEC reporting requirements is obligated to file a form 8-k outlining the terms within four business days [22] (which they promised to do in the press release) has still not filed this document and is now 11 days delinquent on this deliverable.

The mechanics of an equity line give AEHI the right to sell newly printed stock to Roswell Capital at a discount to market price [23]. Roswell will need to be notified a couple of days in advance, will be able to short sell a similar number of shares to retail investors and immediately profit when they receive the new shares. This mechanism obviously only works when there is a sufficiently large receptive group of retail investors. The lower the stock price, the more shares need to be sold.

As a consequence equity lines are financing sources of last resort. They almost always lead to a harsh decline in share price. They generally also include limitations on minimal share price and required market volume. It is certain, that this deal does not guarantee \$150M in availability, but up to \$150M. Typically these sources of financing provide far, far less and I believe AEHI is using this mechanism only to deceive investors and the commission that financing is in fact available. You need to see and understand the terms of this funding prior to accepting the rezone application.

Before money can be drawn from the equity line the stock to be printed needs to be registered with the SEC. This is a long process which will invite significant scrutiny by the SEC. In my view it is not likely that the SEC will approve the registration.

Before using this path of last resort AEHI had tried to raise capital at its subsidiary Reactor Land Development [24]. They tried to raise \$100M in funding and in return offered investors the following profit interest: Before AEHI would receive anything they'd get their \$100M back and afterwards the investors would receive 80% of the profits, while AEHI would get 20%.

On their webpage AEHI describes the overall funding process such that once the land (held by Reactor Land Development) will get full approvals it would be worth \$1.5B [13]. These \$1.5B could serve as asset to borrow the \$10B to construct the reactor. Nuclear power plant funding is considered a very risky business and therefore no creditor would ever actually provide a \$10B loan against a piece of land. But even if such a creditor existed AEHI would not have had that option since 80% of the land would not be owned by them. Additionally existing shareholders who were sold on the promise that they'd be the owners of the \$1.5B asset would sit on merely $(\$1.5B - \$100) * 20\% = \$280M$.

With regards to the claim the land would be worth \$1.5B after approvals compare the letter by Constellation Energy to EDF [25] where they offer to sell 50% of the Calvert Cliffs 3 project including the land (which has local permits and is 3 years into the NRC COL process) for \$1. Also note the reason for this offer: the government loan guarantee would have cost too much for the project to be economically viable for Constellation. Constellation is a big corporation with an investment credit rating [26] and has much better access to the capital markets than AEHI. If they could not make it work it is very unlikely that AEHI would succeed.

AEHI's claims for the profitability of the planned power plant and its revenue impact to the state and the county are based on the assumption that the plant "will create about \$3 billion annually

in reliable profits for 60 years.” (AEHI investor communication [13]) or “\$3 billion in annual business revenue” (Economic, Tax, Public Service Impact Study in rezoning application). Note that the profit calculation was apparently done assuming zero costs!

The company intends to build a 2800 MW facility. Now compare the estimated direct annual business revenue with the table on page 6 of the Impact Study. Here is the capacity of the plants in the table: Millstone (2015 MW), Diablo Canyon (2200 MW), Palo Verde (2500 MW), Indian Point (2045 MW), Wolf Creek (1160 MW). As you can see none of the plants generate more than \$1B in direct revenue although they have about the same generating capacity of what AEHI plans to build. This is less than a third of AEHI’s claims.

AEHI often claims that their plants will be more profitable because they will be the only merchant nuclear power company. This is not correct. Many companies (such as Entergy and Constellation Energy) are holding companies which own both a regulated utility and a merchant power generation company. In Entergy’s case the power generation company exclusively uses nuclear power. Last year Entergy (NYSE: ETR) – the nation’s second-largest nuclear power supplier with 5,000 megawatts of capacity -- cleared just \$631 million on power sales from all of its nuclear power plants combined [27].

To look at it yet another way: if 2800 MW are operated at 90% load for a year they’ll generate $2800 \text{ MW} * 0.9 * 24 \text{ h} * 365 = 22,075,200 \text{ MWh}$. At \$3B the cost per KWh would be 13.6c. This isn’t realistic at all since current energy prices even in high priced California are substantially below 5c per KWh [28].

Let’s look in more detail how AEHI has manipulated retail investors to purchase the stock. We’ve already talked about the \$3.5 billion financing announcement which caused investors to buy the stock, yet did not have substance.

On 10/11/07 AEHI announced [29] it would start repurchasing its shares because they were undervalued. The shares closed at 25c that day. On 1/11/08 AEHI announced [31] it would suspend its repurchasing program though it still considered the share price undervalued. Between these two dates the shares never traded below 20c.

Yet between these dates AEHI issued the following shares [08]:

250,000 at 10c to Jennifer Ransom (AEHI insider)

2,000,000 at 10c to the DeRuyter family which is associated with AEHI's Elmore County

They issued these large amounts of shares for a >50% discount to market, yet claimed the market was undervaluing the shares significantly. The annual reports 2007 and 2008 show that not a single share was repurchased during the period. This implies that the repurchase announcement was only a means to motivate shareholders to purchase stock.

Early in 2010 AEHI teamed up with Nick Hodge from the Alternative Energy Investor to create a

truly manipulative video and report [30] claiming that an investment on AEHI could easily generate a 13400% gain. The Alternative Energy Investor which makes investments in stock before they issue their recommendations continued to issue several promotions on the stock throughout 2010.

AEHI paid 500,000 shares [01] to Good News Capital (<http://www.goodnewscapital.com>), a site that "is dedicated to the individual investor and their personal investment success. It features on-going news briefs, market analysis and educational commentary as well as discovering special situations and profiles on emerging public companies." Good News Capital in turn featured AEHI to retail investors on its web site.

Just last month, two different firms – both known for risky microcap picks -- rushed to defend AEHI with bullish recommendations after TheStreetSweeper raised legitimate concerns about the company. The first one, Pinnacle Digest [32], owns AEHI's stock and admitted in a disclaimer that it plans to "sell every share" for its own profit without advance notice to its followers. The second one, WallStreetCorner.com [33], regularly collects cash and/or stock from the companies it endorses and has directed investors into some notorious losers along the way.

Additionally the company is active on facebook, has its own blog and issues a never-ending stream of hyped press releases to generate interest among investors.

Some of these communications are highly misleading and manipulative: e.g. on 9/7/10 for example AEHI announced [34] that it would suspend a reverse split which was supposed to raise the per share price above \$3, the minimum price to qualify for trading on the AMEX exchange. The reason given was that management thought that short term milestones would allow the stock to reach that limit without a reverse split. At the time the stock traded at 75c with a market capitalization of around \$300M. Retail investors rushed to purchase the shares after the announcement.

While manipulating retail investors to purchase the shares the company issued hundreds of millions of shares to insiders at huge discount to market price to insiders. At 12/31/09 there were 136M shares outstanding, at 6/30/10 there were 314M [35]. For the new shares (>50% of the company) the company received a total of about \$9M in cash. Yet they implied in their press release the suspension of the reverse split that the company would shortly reach >\$1B in market value.

AEHI's stock price also used to be strongly manipulated by artificial sales. This is a known technique used by stock manipulators. For example AEHI used to always be in the top 20 most active OTCBB/Pinksheet stocks for the day. However looking at actual trading one could identify fairly small volume enhanced by large matched block sales which are likely caused by two parties entering matched orders at the same time to create a manufactured impression of high volume and investor interest [36]. This activity has recently subsided a bit - potentially because AEHI fears detection by SEC staff.

AEHI uses the resume of Gillispie to establish credibility with investors. However they frequently stretch the reality significantly. An early SEC filing as well as the rezoning application AEHI claim that Gillispie had an MBA from MIT. This claim can easily be falsified by calling MIT. Gillispie only attended a short management training there.

The rezoning application claims the following:

“As part of a three-man executive team, Gillispie helped oversee the 2007 reopening of Browns Ferry Nuclear Plant unit three in Alabama. The plant had been closed for over 20 years. Its reopening was attended by President George W. Bush.”

However it was actually unit one that was reopened in 2007. To verify I had a call with Masoud Bajestani at the Tennessee Valley Authority, the executive in charge of the reopening of Browns Ferry unit 1. I asked whether Gillispie had worked on the project in an executive capacity. His words:

"Gillispie worked for one week on an independent assessment."

AEHI's public relations people have been shown to post anonymously on investor message board using multiple virtual identities attacking critics and trying to create support for the stock.

I'd like to close with an example of the kind of people AEHI associates with:

The latest 10-k [14] showed a new \$100k Deposit on the balance sheet for the development of a "Hybrid Engine":

"At December 31, 2009, the Company had a \$100,000 deposit held in the escrow with Perkins Coie to fund a potential joint venture project to develop and manufacture a hybrid engine in China."

But the 10k also includes the following subsequent event:

"The Deposit held in escrow was converted to a note receivable in January 2010. The note receivable states that interest will accrue at a rate of 5% on the \$100,000 and is due in July 2010. The note is secured by 1,000,000 shares of Moller International, Inc common stock."

Who might be the partner for this venture? Given the conversion it might be related to Moller International. This is a company led by Paul Moller. Their objective for the last 50 years has been to create an airborne flying car. And yes, they have spun out a company called Rotapower which is supposed to build the "hybrid engine" for this vehicle.

In 2003 the SEC filed a settled civil fraud action against Paul S. Moller ("Moller") and Moller

International, Inc. ("Moller International"), in connection with a fraudulent unregistered stock offering and the filing of a fraudulent registration statement with the Commission. [37] [38]

A couple of quotes from the complaint:

"As of late 2002, MI's approximately 40 years' of development has resulted in a prototype Skycar capable of hovering about fifteen feet above the ground."

"MI raised approximately \$5.1 million from more than 500 investors nationwide and in at least two foreign countries."

"MI took no steps to determine the income level or prior investment experience of investors, and many of the investors were unaccredited and unsophisticated regarding investments."

"Moller used promotional press releases, direct mail, E-mail, and an internet website to solicit investor interest and sell MI stock. In addition, in at least two instances Moller paid "finders' fees" to existing shareholders to recruit new investors."

"A featured claim of the MI solicitation campaign was that the company's shares would soon be listed on the NYSE or the Nasdaq Stock Market. In several communications with investors in 1999 and 2000, Moller either expressly stated or implied that such a listing was imminent. "

From Wikipedia:

"Moller's credibility has been questioned in recent years because of the vaporware nature of his creations. In April 2009, the National Post characterized the Moller M400 Skycar as a 'failure', and described the Moller company as "no longer believable enough to gain investors".

"On May 18, 2009, Dr. Moller has filed for protection under the Chapter 11 reorganization provisions of the federal bankruptcy law."

To summarize: Gillispie gave \$100k to a fraudulent corporation dealing in vaporware a year after the fraudster himself had declared bankruptcy. For 5% annually.

And the \$100k is still listed as "Deposit" in the following 3 10q filings with the SEC, including the latest one (remember the note receivable was due end of q2)?

To close I again urge you to appreciate the responsibility you have in protecting investors and Payette county residents from this project. You should discuss this letter with someone knowledgeable in the topic of penny stock fraud, e.g. Melissa Davis from the StreetSweeper, or Tim Sykes of timsykes.com, both dedicated to exposing fraudulent penny stock operators.