

Thomas, Chenoa

From: Jim Schueler [jschueler@hexagram.com]
Sent: Thursday, April 21, 2005 12:17 PM
To: Giudici, E. Anthony
Cc: Gary Moore; Rick Riccardi
Subject: Pricing correction

Tony,

We recently forwarded you our BAFO pricing for the AMI project. We found we have made a pricing error under Section 2 Communications Network. The annual DCU maintenance should be priced as follows: 5000 @ \$725,000. Please use this number to replace the 5000 @ \$2,250,000 originally sent. This reflects a price decrease from \$450.00 per unit to \$145.00 per unit on an annual basis. We had failed to use quantity pricing when this was compiled.

Thank you,

Jim Schueler
Hexagram, Inc.

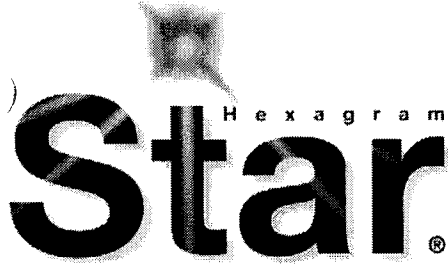
Thomas, Chenoa

From: Gary Moore [gmoore@hexagram.com]
Sent: Thursday, April 14, 2005 2:57 PM
To: Giudici, E. Anthony
Cc: 'Jim Schueler'; 'Gary Moore'; 'Donna Ferrara'
Subject: BAFO

Tony:
Please find enclosed Hexagram's best and final offer.
I have also overnighted 5 hard copies for delivery on 4/15/05

The Hexagram TEAM appreciates the opportunity to work with PG&E.

Thanks
Gary L. Moore
CEO
Hexagram, Inc.



April 14, 2005

E. Anthony Giudici
Pacific Gas & Electric
Supply Chain, Mail Code N5D
245 Market Street, Room 546B
San Francisco, CA 94105

Dear Mr. Giudici,

Per your request, contained herein is Hexagram Inc.'s best and final offer to provide the goods and services described in our response to PG&E's RFP F-10427-04-EAG.

This signed letter indicates that this offer remains valid for at least 180 days from the date shown above.

Thank you for giving us the opportunity to respond. If you have any questions or need further clarification or additional information, please feel free to contact me by telephone at 216-896-8600 or by email at gmoore@hexagram.com

Regards,

Gary L. Moore

A handwritten signature in black ink, appearing to read "G. L. Moore".

CEO, Hexagram Inc.



Hexagram, Inc.

23905 Mercantile Road • Cleveland, Ohio 44122
216/464-1057 • 800/969-1057 • Fax:216/464-5308
www.hexagram.com • star@hexagram.com

Hexagram Best and Final Offer - 100% Gas Scenario	Type	Quantity	100%
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1. Endpoints

1	Hex-200G Residential One Way Module Only Gas	One-Time		\$59/\$49	1
2	Hex-201G 2-Way Module Only Gas	One-Time	4,100,000	\$64/\$54	
3	Hex-202G 2-Way residential/C&I (Hi-read rate)	One-Time		\$69/\$59	
3a	Hex-203 residential One way Dual port Module	One-Time	410,000	\$79/\$69	2

2. Communications Network

4	DCU	One-Time	5,000	\$ 1,800	3
5	Annual DCU Maintenance (Optional)	Annual	5,000	\$ 2,250,000	

3. IT

6	AS5350 modem	One Time	1	\$34,000
7	AS5350 8 dual	One Time	4	\$30,000
8	Dell PE650	One Time	3	\$10,000
9	PIX 525	One Time	1	\$15,000
10	Dell PE 2650	One Time	6	\$60,000
11	Qlogic 2340	One Time	2	\$13,600
12	Dell DAE2	One Time	6	\$550,000
13	NCC Software	Annual	1	\$30,000
14	SQL Software	One Time	2	\$80,000
15	NCC Software	One Time	1	\$125,000

4. Deployment Support and Management

16	DCU installation (does not include bucket truck rental)	One-Time	\$1500 per day	\$1,875,000	Est. 4 per day
17	PSION Test Equipment	One-Time	300	\$700	
18	NCC Install	One-Time	1	\$50,000	
19	Project Managers	Annual	3	\$150,000	
20	NCC Training	One-Time	1	\$375,000	
21	Manuals	One-Time	1	\$150,000	

FOOTNOTES

- (1) \$59 for the first 1,000,000 MTU then price reduction to \$49 per MTU
- (2) Estimate 10% of the sites are multi family
this would replace part of the 4.1M
- (3) If network coverage of the gas foot print exceeds 5,000 DCUs
additional DCUs will be provided at no charge to PG&E

THIS PRICING COMPLIES WITH SECTIONS
2. A,B,E,F,G of the Schedule 1 BAFO instructions

**Schedule 1 - BAFO Instructions
Hexagram**

General

1. PG&E has concerns about your company's ability to meet the Schedule 1 service delivery and warranty obligations given the limited size and financial resources of your company. You must provide a demonstration to PG&E's satisfaction that your firm possesses adequate financial resources to perform its obligations under the contract, including any obligations that might occur during the warranty period of the contract and any indemnifications that survive beyond the term of the contract. Such demonstration should include a schedule of sources and uses of cash, indicating cash payments from PG&E, internal cash generation, as well as cash from outside funding sources. Your company should provide a schedule of external funding sources, which may include commitment letters from banks, institutional investors, venture or other sources of private capital. Such schedule should indicate the amount of funding available from each source, the time period during which that capital would be available, and any conditions that must be met by your company to receive funding from each source. You may meet some or all of these requirements through presentations, that would include your company representatives, financial advisors and investors, to PG&E's project team, including any of PG&E's outside advisors.

RESPONSE Q 1

THE COMPANY

OVERVIEW

Hexagram was founded in 1972 as a "design and build" contractor, and has broad experience in the development, manufacture, and support of electronic products and systems. The company introduced its first meter-reading product in 1983. Its CompuMatic line of remote meter reading devices provided the utility industry with one of the first widely-deployed products to automate the meter reading process. With the installation of over two million of these devices, Hexagram gained extensive knowledge of utility operations and requirements.

Building upon its knowledge base and incorporating advances in wireless technology, the company introduced the STAR® AMR product line in 1996. To date, over one million meters are read, every day, utilizing the STAR® system.

The Star® system is now the most widely installed fixed- network AMR system for water and gas utilities. To meet the financial challenges resulting from this success, the company has increased its capital through private placements, recruited additional experienced management, and implemented an expansion program to equip the company to supply and support shipments of 1 1/2 million units annually. To provide the necessary physical resources, Hexagram has invested 3 1/2 million dollars in a recently- completed facility expansion

Hexagram's proactive planning and accurate controls are basic to the company's fiscal management. In addition, the company maintains excellent relations with its bank, current as well as potential investors, and vendors. Finally, Hexagram maintains an experienced and active Board of Directors.

A PG&E deployment would have, of course, significant impact on all aspects of Hexagram operations. The following information presents Hexagram's financial plan and the effect of the PG&E deployment on the company's fiscal operations:

I. CAPITAL

Through careful financial management, Hexagram has generated the majority of its capital requirements internally. However when required, the company has obtained capital from outside sources. Since 1998, Hexagram has increased capital through two private placements totaling two-and-one-half million dollars; all other capital needs have been generated by operations.

Taking into account the impact of the PG&E deployment as well as the expected growth other business, we forecast available working capital as follows:

2005	\$ 7,400,000
2006	\$14,600,000
2007	\$24,100,000
2008	\$36,400,000
2009	\$44,800,000

2010 \$53,500,000

The above figures indicate that Hexagram will easily fund its expected growth. However, should additional funding be required, we are confident that outside capital could be readily obtained. Exhibit 1 illustrates the commitment of one of the company's current outside investors. Exhibit 2 is only one example of the expressions of interest we have seen, from a significant number of private equity and public firms, in investing or acquiring Hexagram.

II. DEBT

Currently, the company maintains a three-and-one-half-million dollar credit facility with Wells Fargo Business Credit. Careful management has allowed the company to fund operations using cash-flow, thus allowing the credit facility to remain idle. However, the PG&E deployment will result in the need for short-term debt that will slightly exceed our current credit facility.

To fund the start-up of the PG&E deployment, the company will require \$5,800,000 that will be used to finance inventory, receivables and capital requirements. Exhibit 3 is a letter from Hexagram's lender indicating support of the forecasted debt requirements.

III. WARRANTY CONTINGENCIES

In almost ten years of field experience, the performance of STAR products has been extremely robust and reliable. Field issues have been so rare and isolated that our warranty reserves have proven to be conservative. The amount of our warranty reserve contribution is large when compared to our product history, but we will continue to take a conservative position on this matter. Based upon forecast sales activity (including the PG&E deployment), our warranty reserve will be as follows:

2005	\$1,000,000
2006	\$1,800,000

2007	\$2,700,000
2008	\$3,700,000
2009	\$4,700,000
2010	\$5,800,000

IV. SALES FORECAST (including PG&E deployment)

2006	\$72,000,000
2007	\$86,800,000
2008	\$83,600,000
2009	\$84,000,000
2010	\$85,600,000

V. CASH FLOW

Expenses anticipating the PG&E program will impact on our Y2005 cash position; however we forecast positive cash flow throughout the PG&E deployment period. Annual increases to cash are shown below:

2005	\$ (39,000)
2006	\$ 4,500,000
2007	\$13,400,000
2008	\$13,800,000
2009	\$ 9,200,000
2010	\$ 4,100,000

VI. CONCLUSION

Hexagram is strongly positioned, both financially and operationally, to support the PG&E deployment as well as expanded sales to other utilities. We have, in place, the capacity, capital, and expertise to meet the requirements of this program.

The enclosed information is a summary of our detailed business plan. We would be pleased to address any questions you may have, and we would welcome your contacting our bank or equity partners.

2. PG&E wishes to clarify the procurement roles and responsibilities of PG&E and the selected AMI System provider. Please confirm that your bid is consistent with the following instructions. In addition, please specify any differences of approach that you would recommend and upon which your bid is based:
 - a. PG&E will continue to procure new gas and electric meters through its existing Supply Chain group. Vendor's AMI proposal should be based on utilization of new meter equipment sourced by PG&E in accordance with the list of approved meters provided with the RFP (Attachment 1-9 and Attachment 1-10). Confirm that your AMI technology will integrate with equipment from those suppliers or provide the expected date it will integrate. Identify any exceptions where products are not currently available and/or not planned for integration with meter products on PG&E's approved list.
 - b. The AMI vendor will warrant the AMI retrofit modules. The meter vendor will warrant the meters and integrated solid state AMI meter products (if any).
 - c. The Meter vendor and retrofit service supplier will warrant the meter package.
 - d. For electric AMI products:
 - i. AMI Products on New Meters AMI vendor will be responsible for managing, integrating and testing meter and module components and delivering approved, installation-ready AMI equipped meter products to locations designated by PG&E. AMI vendor will coordinate with PG&E to ensure that meter purchases are correctly accounted for and paid by PG&E.
 - ii. AMI Products on Retrofitted Meters Vendor will be responsible for managing the process of receiving meters from PG&E for refurbishment, performing the refurbishment, retrofitting AMI modules, testing and delivering the installation ready refurbished and retrofitted AMI equipped meter products to PG&E designated service locations.
 - e. For new PG&E gas meters, AMI vendor will be responsible for managing, integrating and testing meter and module components and delivering approved, installation-ready AMI-equipped meter products to locations designated by PG&E. AMI vendor will coordinate with PG&E to ensure that meter purchases are correctly accounted for and paid by PG&E.
 - f. For existing PG&E gas meters, AMI vendor will ship gas retrofit modules to designated PG&E service locations for shop retrofitting by PG&E (or a service provider designated by PG&E).

- b. For network products, AMI vendor will ship the products to PG&E service locations for installation by PG&E (or a service provider designated by PG&E).

RESPONSE Q 2

Complies with applicable sections as noted on pricing matrix

3. Please confirm that your pricing is consistent with the above description of roles and responsibilities or identify any variations.

RESPONSE Q 3

Confirmed

4. PG&E regards the skills and experience of your project implementation team to be a key selection criterion. Please identify the specific individuals (where possible) who will fill critical roles in the implementation team as defined in the positions listed below. Where names are not available please define needed roles and responsibilities. PG&E will require that those people be committed to the project on a substantially full time basis for the duration of the project unless otherwise approved by PG&E.
- a. Project lead
 - b. Technology architect
 - c. Procurement specialist

RESPONSE Q 4

Hexagram understands the complexities associated with an automated meter reading project of the scope and scale Utilities will be undertaking. It is our intention to provide dedicated project management resources that will reside at PG&E composed of Lead Project manager, System project manager and Field project manager. Although establishing an accurate schedule is not possible until considerably more definition of the project methods have been done, the following estimates provide a starting point for planning discussions. This proposed schedule refers to the pilot and full system deployment.

- Contracting Phase: Includes Project Definition, Contract Negotiations and Contract Execution
- Project Deployment Phase: Includes Project Office Setup, Meter Shop Startup, Tracking System Startup, Office and Shop Staffing, Installer Staffing and Training, Database Conversion and NCC Installation
- System Installation Phase: Includes DCU Installations, NCC Integration, and Meter and MTU Installation
- Project Completion: Includes Installation Cleanups, Office and Shop Closedown and Utilities Acceptance Review

Training – All employees must successfully complete Meter Services Safety, Customer Service and Technical training prior to commencing their final On-The-Job performance evaluation. This process ensures that all technicians understand and conform to the expectations of Hexagram and Utilities as they represent.

Process Development – Collaborative efforts between Hexagram and Utilities will ensure that acceptable business practices are followed throughout the course of the project. Detailed processes surrounding the management of Data, Customer Satisfaction, Materials, Quality Assurance, Performance, Claims, Exceptions, Conflict Resolution and Safety will be key success factors of the project. Our existing processes will be customized to Utilities specific needs and business rules.

Installation – The project ramp up will consist of the addition of qualified technicians with the necessary tools and equipment until the full contingent is hired and trained. During the body of the project, resources will be managed to meet the requirements of the installation schedule. The subsequent ramp down and potential transition to Hard-To-Access Accounts will be defined in advance. Installation technicians typically work across a six-day and evening schedule to provide ample opportunity to the customer base to allow access to any indoor accounts.

In general, the implementation of a fixed network AMR system in a small area such as the designated pilot area for approximately 2500 meters is detailed yet straight-forward: (Note that several of the below 'initiation' activities will occur simultaneously such that multiple activities like manufacturing and software configuration can be accomplished concurrently)

- 1) Assign the Project Manager and conduct planning meeting(s) with Utilities to ensure that both sides are agreed on all aspects of the contract, project sequence, standards of performance and reporting/ interface requirements.
- 2) Complete detailed project planning and sequencing and coordinate with Utilities to ensure that it meets the needs of both Utilities and its customers.
- 3) Coordinate with Utilities to ensure availability of meters and AMR-ready registers to support the installation schedule and sequence.
- 4) Conduct (with Utilities) community education forums such that residents in the pilot area and broader community are apprised of the upcoming project and presence of contractor crews.
- 5) Initiate and complete all back-end configuration and interface systems for the system to be deployed (software-to-billing-system interface, etc.) such that the system is available and ready to receive/ process data from the first day of MTU installation and programming.
- 6) Execute all subcontracts and ancillary supplies purchase orders to initiate the manufacturing cycle such that all materials are available as required to support the agreed installation schedule.
- 7) Mobilize installation crews to the site for DCU installation and commissioning. Complete DCU installation, commissioning, interface and communications testing/ verification prior to the first MTU installation. (Note that this step includes connection to the Utilities' backhaul data network.)
- 8) Initiate notification mailing/ door hanger program for the water and gas customers in the pilot installation area. (This is a rolling program, which precedes the actual installation by a few weeks.)
- 9) Mobilize installation crews to the site and conduct initial training and certification.
- 10) Conduct 100% walk-through of pilot area to locate all meters, identify all meters as requiring change-out or retrofit-only under the conditions of the contract, determine potential co-location (dual port MTU) installations by type and complete installation materials and crew scheduling.
- 11) Prepare change-out meter stock for deployment.
- 12) Conduct system operator training for Utilities as required in the contract (including courtesy MTU installation training).
- 13) Initiate the staged MTU installation and programming/ change-out/ retrofit program through the pilot area (with daily verification of successful installation and communication through the network).
- 14) Conduct weekly project meetings with Utilities to coordinate all activities, assess problems, verify progress, discuss possible improvements to the project plan and verify performance of all elements of the contract as specified.
- 15) Continue the installation program until the pilot areas are 100% installed and all meters/MTUs are functioning as specified.
- 16) De-mobilize installation crews.
- 17) Conduct project recap meeting with subcontractors to identify specifics of what worked well, what did not work well and what could be improved.
- 18) Conduct project recap meeting with Utilities to identify specifics of what worked well, what did not work well and what could be improved.
- 19) Revisit Utilities periodically throughout the pilot evaluation period to monitor continuing performance of the system to the standards and expectations of the contract and Utilities.

5. Please use this opportunity to review your pricing and to submit your best offer to PG&E. Please identify all assumptions made in developing your pricing, provide a description of all relevant details, and the potential implications of changes to any assumption.

RESPONSE Q 5

All assumptions are foot noted on the price matrix

6. PG&E requires a source code license allowing PG&E to use third parties to operate and/or maintain the system during the term. Please confirm your agreement to provide PG&E source code access through a licensing agreement.

RESPONSE Q 6

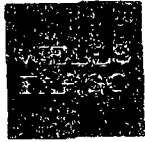
Licenses for Hexagram source will be provided upon request as required

7. Please provide pricing and other considerations in response to the following implementation scenarios:
 - a. 100% fixed network system for gas only

RESPONSE Q 7

BAFO pricing is for a dedicated gas solution only

Note: If pricing for the system above would be different if requirement were to only deliver gas usage data monthly instead of daily, please indicate those differences.



April 14, 2005

Mr. Martin Zilker Chief Financial Officer Hexagram, Inc.

23905 Mercantile RD.

Cleveland, Ohio 44122

Dear Marty:

Wells Fargo Business Credit, Inc. Site 1400
100 East Wisconsin Avenue

414-24-7440

Wells Fargo Business Credit, Inc. ("WFB") is pleased to present this confidential proposal to modify our existing Credit Facilities ("Credit Facilities") to Hexagram, Inc. and SZR Properties, LLC ("Borrowers"), in the amount and under the terms and conditions outlined below. This proposal is not a request for an extension of our existing Credit Facilities, but does represent our sincere interest in extending our existing Credit Facilities.

The following items outline the proposed changes to the existing Credit and Security Agreement

between Hexagram, Inc. and WFB dated April 27, 2001 and subsequently amended:

Revolving Facility:

Up to, but not to exceed _____
calculated under the Borrowing Base.

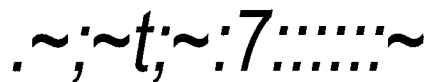
All other terms and conditions of the Credit Facilities will remain unchanged unless agreed to by both parties. If you are in agreement with the foregoing please sign the original of this letter and

return it. This proposal is confidential between you and WFBCI. This proposal will expire if not accepted prior to May 30, 2005.

We hope the proposed increase in the Revolving Facility will accommodate the growth needs of Hexagram, Inc. Do not hesitate to contact us should other modifications be necessary. We appreciate the opportunity to make this proposal and look forward to continuing the mutually beneficial long-term relationship which has existed over the past four years.

Sincerely,

WELLS BUSINESS CREDIT,



J.

Vice President

881p9v9-c16
0:TT



Strength Capital Partners, LLC

April 12, 2005

Potential Hexagram Customers

Strength Capital Partners
Inc.

Strength Capital Partners is a Michigan based private equity firm with over \$100 million of capital under management that specializes in providing expansion capital to growing businesses.

Strength Capital has been an investor in Hexagram Inc. since 2001. .

allocate more capital to this fantastic company if necessary.

Strength Capital invested in Hexagram based on its market leading technology, roster of satisfied customers, and committed team of employee/owners. During

to make customers happy.

Hexagram is a well capitalized company. The balance sheet is debt free and the Company has a meaningful cash balance that will help fund continued growth. This is the case even though the Company made significant investments in

several expected large orders.

Hexagram on a frequent basis. Importantly, Strength Capital brings senior executive utility industry experience to Hexagram. Bernie Reznicek, the retired

Gas, serves as an advisor to the Company.

The members of Strength Capital that advise Hexagram on a regular basis are noted on Exhibit I.

additional information, please contact either Mike Bergeron (248) 593-6873 or

www.strenqthcapital.com to learn more about our firm.

555 S. **Old** Woodward Ave., Suite 755 . Binningham, MI 48009

Tel: (248) 593-5800 • Fax: (248) 593-6875 • www.strengthcapital.com

Member of the Board of Directors for Pulte Homes, Hexagram, Henry Ford Healthcare, and Magic Tan

Mr. Bernie Reznicek

Advisor to the Board of Directors of Hexagram "

Technologies, and Omnicem

Mr. Mark McCammon

Former Investment Banker, Goldman, Sachs

Member of the Board of Directors for Metal Spinners, Propane Services,
and Omnicem

acquire the business soon after a management presentation. be consummated within 45 days of a Letter of Intent

ORA_24-01 Attach01

Confidential Protected Material Submitted PUC Code Section 583

We believe that a transaction can

customary business, accounting, legal and environmental due diligence. Unless and until a definitive agreement with respect to the transaction which is the subject of this letter has been

executed and delivered by all parties, we are under no legal obligation of any kind ;whatsoever with respect to such a transaction by virtue of this letter.

We are excited about the potential of Hexag1'atn and look forward to a discussion regarding management's vision for the future.

ORA_24-01 Attach01

Confidential Protected Material Submitted PUC Code Section 583

If you have questions or concerns regarding any aspect of this proposal, please do not hesitate

to contact me at

We look forward to hearing from you.

Best regards,

1Vlanagmg Principal

Hexagram, Inc.
23905 Mercantile

Confidential Protected Material Submitted PUC Code Section 583

Cleveland, OR 44122

Attention:

Mr. Lawrence Sears Director of Technology

Dear Mr. Sears:

binding indication of interest for a possible acquisition of Hexagram, Inc. ("Hexagram" or the Company).

Valuation and Structure

cash-free value of Hexagram is \$10 million. This preliminary valuation assumes that the EBITDA projections provided to us can be achieved with the projected capital spending, that there are no material contingent liabilities of the Company, and that the Company's non-financial working capital as of closing will be sufficient to fund the post-closing sales projections. In addition, this valuation also assumes that the Company achieved a

continues to make progress towards the million in EBITDA projected for the Fiscal Year

ORA_24-01 Attach01

contemplating the purchase of Hexagram for cash and anticipate working closely with the Company and its advisors to develop an advantageous transaction structure for all parties.

Confidential Protected Material Submitted PUC Code Section 583

Production of is an investment affiliate of the ; a privately held industrial and investment group with interests in manufacturing businesses including packaging, building products, capital equipment and metal and plastic

exceed \$1 billion, and its investment activities include direct private equity investing in

manufacturing companies, as well as investing in funds and marketable securities.

We have had significant experience in supporting all investment in companies ...

that are poised to benefit from strong growth in their markets due to underlying conversion and/or growth trends. (one of the world's leading

reading devices. We believe there could be significant marketing and sales synergies between Hexagram and .

____("AMR") industry specifically, over a year ago

began researching AMR and related technologies and applications as part of

an internal research program. Through this program identifies and

researches a small number of industries that we believe fit exceptionally well with our core

investment principles. Subsequent research has confirmed our interest in this sector as one

sustainable growth potential driven by a compelling, long-term technology-driven conversion, and (ii) attractive profitability and return on investment characteristics due to the presence of differentiated, technically-sophisticated products which provide meaningful and measurable benefits to end customers. Furthermore, - shares Hexagram's view that the.

For more information about visit our website at

we encourage you to

Finan-. The equity for the transaction will come from our group, and the debt financing would be provided by our traditional bank and institutional sources.

Other Considerations. We anticipate that the existing management team would continue to

run Hexagram on a day-to-day basis, as a stand-alone business, and would continue to

aligning *its* interests with those of the management team. We anticipate a structure that would

include participation by certain key employees of Hexagram in the growth and profitability of

existing management shareholders to roll-over a meaningful portion of their equity.

Due Diligence and Timing: Assuming

to-face meeting with the management team. Provided that information is readily available to

address our due diligence questions, we would be prepared to submit a Letter of Intent to

ORA_24-01 Attach01

Confidential Protected Material Submitted PUC Code Section 583