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January 22, 2012 8:00 PM

Revenue generator

Danotek sees big contract powering its growth in alt-energy sector

By [Tom Henderson](#)

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Engineering innovations in adaptable and powerful generators for wind turbines has helped propel Canton Township-based **Danotek Motion Technologies'** rapid revenue growth.

Danotek hopes to use a large contract announced earlier this month -- plus venture capital fundraising success -- as a springboard to increase revenue from less than \$1 million last year to between \$12 million and \$15 million this year and up to \$60 million in 2013.

Donald Naab, president and CEO, said the revenue increase will validate the support it has received over the years both from its venture capital investors and the **Michigan Economic Development Corp.** It has been one of the most successful tech company fundraisers in Southeast Michigan in recent years, having raised \$32 million.

Naab said a major factor in the expected sharp increase in revenue is a product Danotek will bring to market this year: a large machine that converts alternating current to direct current. The company also supplies generators for nonturbine power-generation companies and makes power steering pumps for electric vehicles in the trucking industry.

Since Naab joined Danotek in May 2010, the company has added 30 employees for a total of 50. He said 19 of those new hires were recruited from outside Michigan and nine from outside the U.S. He said five to seven employees will be hired this year to support the large contract, with **Tecogen Inc.**

Danotek traces its roots back to 2001, when three former **General Electric Co.** engineers formed a consulting group in Ann Arbor.

In 2006, it had evolved into a company with its first product, something called a permanent-magnet generator. Tecogen, a Waltham, Mass.-based maker of natural-gas-fueled power generation devices, made



GLENN TRIEST

CEO Donald Naab stands next to components of permanent-magnet generators — products that are key to expansion at Danotek Motion Technologies in Canton Township.

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its first order that year.

Earlier this month, Danotek announced that it had received its latest purchase order from Tecogen, for 40 100-kilowatt permanent-magnet generators.

Tecogen makes generators for use at commercial buildings. It feeds electricity into the building, and it also uses much of the heat generated in burning the natural gas to heat water in the building and to heat the building, giving building owners a "twofer," according to Robert Panora, Tecogen's president and CEO.

"They're really the only game in town," said Panora. "We used to use another company in the Midwest, but their generators just didn't cut it. I don't remember how we came across Danotek, but we gave them a try and they met all our specs and we've been using them ever since."

Panora said the advantage to Danotek's technology is that its generators, unlike its competitors', can run at variable speeds. At high peak usage times, such as summer days, customers can run the generators faster and generate more electricity and more cost savings.

"It's just a very unique generator," said Panora. He said the flexibility is a result of being designed to run with wind turbines, which need to generate power at a range of RPMs. He said Danotek's machines also are low maintenance compared with other generators.

Naab declined to put a dollar figure on the most recent Tecogen order.

He said the ongoing progress in product development serves as the basis for its current fundraising. He hopes to close this summer on a Series C round of venture capital of between \$10 million and \$20 million to ramp up manufacturing and expand the product line.

In November 2008, Danotek got instant credibility when it got its first VC investment, a Series A round of \$7.25 million. It wasn't the money that gave the credibility, but the name of the lead investor, an icon of the VC industry named Vinod Khosla, of Silicon Valley-based **Khosla Ventures**.

Khosla founded **Sun Microsystems Inc.** in 1982, later joined the legendary VC firm of **Kleiner Perkins Caufield & Byers** and then founded his own VC firm in 2004 to invest in emerging green technologies.

Khosla Ventures led the B round, too, of \$13.2 million in December 2009, and is expected to be part of the upcoming C round. Other investors in the first two rounds were **GE Energy Financial Services** of Stamford, Conn., **CMEA Capital** of San Francisco and **Statoil Technology Invest** of Norway.

The investment by GE Energy Financial Services offers more than just money. That unit of GE is a major investor in what will be the world's largest wind farm when it is completed: the 845-megawatt Shepherds Flat Wind Farm in Oregon, which offers the potential of large future contracts.

Danotek also got an equity investment of \$1.5 million from the MEDC in 2008, the same year it got a state tax credit of \$2.5 million over 10 years to create 141 direct jobs at the company and 212 indirect jobs. It has received loans to fund growth from the **Silicon Valley Bank** and in 2007 got \$200,000 in seed funding from Troy-based **Automation Alley**.

Naab said that, like other suppliers to the wind-turbine industry, he worries about the possible expiration of federal tax credits at the end of 2012. But he said Danotek's revenue-growth plans don't rely on the credits because of its range of other markets, too.

Nonetheless, the wind-turbine market is important, since Danotek's permanent-magnet generators sharply reduce the weight of drive trains, which increases a turbine's life span with a reduction in cost.

According to a Nov. 18 article on the *Windpower Engineering & Development* website, Danotek is the only U.S.-based supplier making energy conversion systems in the 600 kilowatt to 8 megawatt range for the wind energy and industrial markets.

The article said Danotek's equipment is particularly useful in helping wind turbines capture energy even in low-wind environments.

Naab said the company has received two patents and has applied for 13 others.

Danotek's two main competitors are **The Switch** of Finland and **Ingeteam Services SA** of Spain.

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