Doubters / Believers

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Solar-power maverick Timminco was worth $3.5 billion in 2008 - and next to nothing in 2012. As Bay Street superstar Eric Sprott learned, sometimes a tale about a bright new tomorrow turns out to be the oldest story on the Street

They came to see the breakthrough.

That is, after all, what the company called it: a "breakthrough."

What did it look like? How did it work, exactly? Did it even really exist?

They hoped the answers would be found in Bécancour, Quebec, a weary industrial town - home to Quebec's only nuclear-power reactor - that sits kitty-corner across the St. Lawrence from Trois-Rivières.

It was here, they were told, that the breakthrough had been made. There were about 50 of them on the bus. Nobody talked much. Some had come from Toronto, others from New York, Boston, Connecticut - institutional investors mostly, along with a few analysts and a good sprinkling of hedge-fund types.

It was May, 2008. No one knew how much the world was about to change. Lehman Brothers was still a major player on Wall Street.

What mattered most, for those on the bus that day, was the price of polysilicon. The photovoltaic industry was booming. European countries like Germany and Spain were plowing hundreds of millions of euros into building solar power infrastructure. Buoyed by these and other government subsidies, the solar industry was scrambling to keep up with demand. Polysilicon - a key ingredient used to make solar cells - was fetching about $400 (U.S.) per kilogram. There was a global shortage of the stuff and solar cell manufacturers were desperate for it.

As the coach pulled up outside an unexceptional-looking industrial building, anticipation mounted. This was the place where Timminco Ltd., until recently a little-known producer of low-grade industrial metals, said it had solved the solar industry's supply problem. Here, in Bécancour, it had developed a proprietary process to produce solar-grade silicon much more cheaply than anyone else. That promise had propelled Timminco shares from less than 30 cents to more than $22 by the end of 2007, earning it plaudits as the top-performing stock on the Toronto Stock Exchange that year. The company's market value would soon surpass $3.5 billion.

The passengers peered out the bus window in intent anticipation of what was bound to be the highlight of the company-run tour.

Rupert Merer, an analyst at National Bank Financial, recalls what happened next.

"They opened up some of the [plant] doors while we were sitting in the vehicle, so we could see the equipment through the doors. They did have one of the furnaces working, so you could see the glow of the flames inside the furnace. But that was as close as we got," he says.

So the bus doors never opened?

"That's right. We weren't allowed off the bus."

The story of Timminco - which concluded early this year with the bankruptcy of the company and the delisting of its stock on the TSX - has, since its beginning, inspired doubters and believers. The company never delivered on its promise to produce cheap solar-grade silicon on a commercial scale. The believers maintain Timminco never got the chance to prove itself because the solar industry collapsed and demand for high-purity silicon dried up almost overnight. The doubters insist the company could never have made the breakthrough.

Even during the solar frenzy of 2007 and early 2008, Timminco had detractors - short sellers betting the stock would fall as the breakthrough claims unravelled. But the skeptics were facing off against one of Canada's most high-profile money managers: Bay Street stock-picking guru Eric Sprott and his small army of portfolio managers had bought 17% of the company. Not to mention that the largest mutual fund company in the world, Fidelity Investments, had aggressively built up a stake that would eventually reach 15%. And though many investors probably didn't know it, Timminco even had a distinguished lineage in Canadian corporate history.

Yet Thomas Timmins would prefer not to talk about recent events at the company that bears his family's name. During a brief telephone interview from his home near Chicago, Timmins apologized for his reticence regarding the fate of the company he joined as a director in 1957. "Timminco is way behind me now," he said. "I've moved forward. I'm not even thinking about it."

Prior to its solar phase, the Toronto-based company had been around in various forms since the 1930s and, under Timmins's leadership, it gained a listing on the Toronto Stock Exchange in 1974. The Timmins clan had plenty of stock market experience: Thomas Timmins is the grandson of mining legend Noah Timmins, who developed the Hollinger gold mines and for whom the city of Timmins, Ontario, is named. (Not all the Timminses ended up in metals or mining. Great-grandchildren of Noah's constitute three-quarters of the drowsy alt-country band Cowboy Junkies.)

Timminco's primary business was producing magnesium and related alloys at a decrepit plant in the Ottawa Valley town of Haley Station and at another facility on the outskirts of Denver. In the 1990s and early 2000s, Timminco produced magnesium for use in luggage frames, storage tanks, water heaters and sporting goods. It was, in the words of a former director, "a not very sexy business."

It was about to get sexier. The solar adventure began because Timminco came to represent a chance at redemption for a onetime business wunderkind from Europe who had fallen from grace. Heinz Schimmelbusch had been, more than a decade before, CEO of Metallgesellschaft AG. In the late 1980s and early 1990s, the Austrian-born Schimmelbusch was a dashing business leader and a confidant of German chancellor Helmut Kohl. Schimmelbusch envisioned Frankfurt-based Metallgesellschaft as a world-beating metals giant and a German corporate champion. "We are a miniature version of Mitsubishi," he told BusinessWeek in 1990. "With environmental services and materials technology, it will be very difficult to make this company unstable."

Under Schimmelbusch's direction, Metallgesellschaft went on a $2-billion (U.S.) acquisition spree and soon comprised some 258 companies around the world. But the "mini-Mitsubishi" story ended abruptly in 1993, when Metallgesellschaft suffered a loss of $1.1 billion (U.S.) stemming from a wrong-way bet of Schimmelbusch's on oil futures. The firm nearly went bankrupt and Schimmelbusch was out as CEO.

Leaving Germany's financial capital behind, Schimmelbusch retreated to an unlikely venue: Wayne, a suburb of Philadelphia. It was here, along with Arthur Spector, an American lawyer with an avuncular manner, that Schimmelbusch began plotting his comeback.

In 1997, the two men founded the technology-focused private-equity firm Safeguard International Fund LP. Among Safeguard's first investments was the 1999 purchase of Bécancour Silicon Inc., a Quebec silicon maker based in the municipality of the same name. Other than Schimmelbusch, Spector and an affiliate of Credit Suisse that had a small stake in the fund, it is unclear who else invested in Safeguard.

By 2003, Safeguard said it managed investments worth $370 million (U.S.). It was during that year that it became Timminco's apparent saviour.

Timminco had been struggling, in part because of the destruction of the Haley Station plant in a fire. The company was deeply in debt, owing $30.4 million at the end of 2002, almost all of it to the Bank of Nova Scotia, which had put its client in workout mode. Timmins had stepped down as CEO in 2001; while he was still the firm's non-executive chairman, former insiders say, he had lost the confidence of the bank and much of the board. He was often excluded from meetings.

Timmins confirms that once he stepped down as CEO, he had "no responsibility" for operations. That role had fallen to board member John Crow, the former governor of the Bank of Canada, who had been appointed acting CEO in 2001. Tasked with getting Timminco on solid footing, Crow formed a special board committee and hired bankers from CIBC World Markets to shop the firm to possible buyers and investors.

Despite being relegated to the sidelines of its management ranks, Timmins was still in a position of power: He controlled the largest chunk of Timminco stock and votes, approximately 46% of the float.

In April, 2003, Safeguard bought six million Timminco shares in a private placement for $1.10 each - a large premium to Timminco's share price of 68 cents. Safeguard later offered to purchase up to four million shares from shareholders, also at $1.10.

The two transactions gave Timminco much-needed breathing room with the Bank of Nova Scotia. But the investments would also have other implications. Although the purchases gave Safeguard just 10 million Timminco shares out of more than 30 million shares outstanding, Schimmelbusch and Spector had negotiated a side deal with Timmins that would give them effective control of more than 50% of the stock. Thus Safeguard was able to gain control of Timminco for just $11 million, even though the company's market valuation was about $24.5 million.

"This was a refinancing, right, and these people were coming in to refinance the company," says Timmins, by way of explaining the transaction. "I was a shareholder and it seemed like the best thing for all the shareholders to have that done at the time."

As part of a 1996 agreement, which was amended in 2001, Timminco agreed to pay Timmins approximately $250,000 per year for consulting services once he was no longer CEO, above and beyond remuneration for remaining on the board.

The monthly payments of $20,833.33 began after Timmins resigned as CEO in 2001, and continued after Timmins granted Safeguard voting control of his shares in 2003. In a sworn affidavit filed in Timminco's bankruptcy proceedings, Timmins said he occasionally counselled Timminco management, including Schimmelbusch, on staffing, strategy and other matters during this period. But after he resigned from the Timminco board and sold the rest of his shares in mid-2007, his consulting services were no longer requested. Still, the monthly cheques continued to be issued right up to the month that the company filed for bankruptcy protection.

"I'd been with the company a long time," Timmins says when asked about his role in what became of Timminco. "We had a lot of wonderful people in that company. They helped me do what I would consider a pretty good job. I'm sorry the way things turned out. Commenting on that is not my function."

Once Safeguard had control of Timminco, Schimmelbusch and Spector joined the board and brought in their own directors. Having steered Timminco through its financial crisis, John Crow was informed by Spector that he was no longer needed on the board.

Under CEO Schimmelbusch, Timminco's shares plodded along on the TSX, hovering around $1 most of the time. Then, in July, 2004, in a related-party transaction that was fully disclosed, Timminco announced plans to buy Bécancour Silicon from Safeguard for $34 million in stock. Timminco would also assume about $17 million of Bécancour's debt. The deal is difficult to evaluate, because the price that Safeguard paid for Bécancour in 1999 was not revealed.

If approved, the deal would require Timminco to issue 30.9 million shares to pay for the acquisition. Since the transaction was conducted in stock, it would also solidify Safeguard's control over Timminco, boosting its stake from 26% of the shares to 59% and taking its voting control over the company from 50.3% to 72.4%.

Because the deal involved related companies, bankers from RBC Dominion Securities were asked to issue a fairness opinion to an independent committee of Timminco directors. The bankers concluded that the Bécancour acquisition was "fair, from a financial point of view, to Timminco."

Shareholders approved the deal. If the company had any plans of producing solar-grade silicon, they were not mentioned at the time.

When it comes to stock-picking, Eric Sprott and his investment team like to get in early and they like to get in large. A knack for finding overlooked, underperforming junior companies has been the cornerstone of the Sprott modus operandi since he founded his eponymous firm in 1981. Unlike at most Canadian funds, Sprott portfolio managers shun the big banks and blue chips, preferring to back stocks that have the potential to provide massive gains rather than slow and steady returns. "My favourite investment is to own 0.1% of something and have it become 30% of my portfolio," Sprott told The Globe and Mail's Globe Investor magazine in 2008, when Timminco was in its heyday and his firm, Sprott Asset Management LP, was preparing to launch an IPO. "We have a lot of those stocks that were really, really little and became winners."

Sprott's firm had about $7 billion in assets under management at the time - more than enough cash to move company share prices, particularly those of penny stocks. Sprott's team of analysts and stock pickers closely adhered to their leader's deep-rooted doomsday convictions - that gold is money, peak oil is a reality and hard assets are superior investments to banks and financial services companies.

Timminco fit the pattern at Sprott - at least in the short term. So did Ceramic Protection Corp., a Calgary company whose story anticipated Timminco's in several respects.

Ceramic manufactured bulletproof vests and other armour designed for the security and military sectors. According to regulatory filings, in June, 2004, Sprott funds owned about 10% of the company. In September of that year, Ceramic purchased a Delaware-based company, Alanx Wear Solutions, for about $30 million (U.S.) in cash and stock. At the time of the sale, Alanx was controlled by Allied Resource Corp., whose chairman was the future driving force of Timminco, Heinz Schimmelbusch. Alanx's CEO at the time of the sale was John P. Walsh, who joined Ceramic and was later named president of the merged company.

A few months after the Alanx acquisition, Ceramic raised $17.25 million through a bought-deal financing led by Clarus Securities, a small sell-side brokerage firm that concentrates on lesser-known Canadian stocks, with a focus on resources and technology. Ceramic shares soared as high as $29.90 in late 2004, thanks in part to a $30 price target issued by an analyst at Clarus itself, David Tomljenovic.

Sprott's stake in Ceramic peaked at 17.2% in July, 2005, according to a regulatory filing. By the end of May, 2006, that stake had been reduced to 8.2% of the company, regulatory filings show. (The filings do not show when or if Sprott sold the rest of its stake.) The timing of the sale was good: In September, 2006, a major customer of Ceramic's cancelled a supply deal, triggering a downward spiral for the stock. Ceramic, which eventually changed its name to Protective Products of America Inc., filed for Chapter 11 bankruptcy protection in January, 2010, and most of its assets were later sold off to a private equity firm for a mere $8 million (U.S.).

In December, 2006, shortly after things started to go south at Ceramic, Walsh was named CEO of Timminco. Schimmelbusch, meanwhile, had taken the role of chairman. That year, Timminco's stock had traded as low as 20 cents and the company remained cash-strapped: On two occasions, it borrowed from its controlling shareholder, Safeguard. In September of 2006, Safeguard loaned Timminco $3 million (U.S.) in exchange for the right to buy an equal amount of shares at 40 cents each. Safeguard made a similar loan in February, 2007, providing the company with $4.5 million (Canadian) for the right to buy an equal amount of stock at 42 cents a share. According to regulatory filings, on April 30, 2007, Safeguard received about 5.75 million Timminco shares by converting $2.3 million of the loan money into shares at 40 cents apiece.

The press release that would alter the course of Timminco's history and set off a bruising battle between the company's supporters and detractors was issued on March 15, 2007. At the time, Timminco shares were changing hands for about 40 cents.

Out of the blue, the company announced it had won a contract with an unnamed solar cell manufacturer to supply 4,000 tonnes of "high purity" silicon over five years.

One of the architects of the new process was René Boisvert, an electrical engineer and long-time employee of Timminco's Bécancour Silicon subsidiary. As president of Bécancour, it was Boisvert, not Schimmelbusch, who became Timminco's public face when it came to explaining how the tiny metals firm had come up with a world-beating process. In the press release, Boisvert said that the company had been working with solar-cell manufacturers over the past year to develop a metallurgical process to "purify" the chemical-grade silicon it produced in Quebec. Timminco "has a patent-pending process which enables it to produce high-purity or solar-grade silicon," Boisvert said in the release. ("High purity" was defined as 99.999% pure.) This represented a "tremendous breakthrough" for the Bécancour research and development team, he added. Talks regarding "long-term commitments" were already under way with other solar cell makers.

For anyone who followed Timminco at the time - given its size and stock performance, there were likely few who did - this was an astounding and completely unexpected announcement. Until that moment, the company had never publicized any plans to develop solar-grade silicon.

Even former Timminco executives concede that Bécancour's sudden switch in focus from producing metallurgical-grade silicon for use in caulking and other low-grade applications to making highly pure solar-grade silicon was unexpected. "There wasn't even a solar strategy when I joined there," said one senior employee. "We were trying to fix the magnesium business."

But Schimmelbusch, Spector and Safeguard knew about Boisvert's promising R&D project when they made the loans to Timminco in exchange for stock in 2006 and 2007. In an interview in 2008, Spector explained that while Safeguard was aware at the time that Timminco was working on the solar project, it didn't know if it would win the contract with the solar cell maker.

"What is, is," Spector said.

For Safeguard, there was one more move to make regarding its stake in Timminco. On March 29, 2007, just two weeks after the "breakthrough" announcement, Safeguard transferred its Timminco holdings to an affiliate company, AMG Advanced Metallurgical Group NV.

In addition to Timminco, AMG controlled several other metals businesses. But none would generate the hype and headlines that Timminco would. In July of that year, with the help of investment bankers from Credit Suisse (a firm that owned a minority stake in Safeguard), AMG conducted an initial public offering on the Euronext exchange in Amsterdam. The IPO raised $433 million (U.S.), including almost $190 million (U.S.) for Safeguard and its investors. Whatever business reasons were behind this new corporate configuration, it also had the effect of allowing Schimmelbusch, Spector and any other investors in Safeguard to cash out of Timminco without ever directly selling any stock in Canada, which would risk depressing the company's share price.

Safeguard and its investors weren't the only ones changing their holdings in the company around the time Timminco announced its entree into the solar silicon sector in March, 2007. John Walsh bought a total of 152,000 Timminco shares in the weeks before the breakthrough was announced for $58,250. According to sources familiar with the matter, the Ontario Securities Commission investigated Walsh's trading but never made any allegations of illegal trading.

A former Timminco insider suggests that Walsh, despite being CEO, didn't know about the promising project in the pipeline. "While Walsh was the CEO, Schimmelbusch's executive chair was the executive chair. He ran the show. So I think Walsh's position was he didn't know. And in the context of Heinz and his managerial style, that's not so far-fetched," the former insider says.

Walsh stepped down as Timminco CEO in August, 2007, to run another division of the company. He was replaced by Schimmelbusch. On April 3, 2007, shortly after the Bécancour announcement, Walsh bought another 200,000 Timminco shares for an average price of about 90 cents each. He left Timminco altogether in April, 2008, and ceased to be an insider; thus there is no public information as to whether he ever sold his Timminco stock. (Walsh did not respond to requests for comment made through his Canadian lawyer.)

Of all the stocks that Sprott Asset Management backed in 2007 and early 2008, the biggest little winner of them all was Timminco: The stake accounted for about 25% of all investment gains on the firm's assets during 2007. By the end of that year, Sprott's flagship Canadian Equity Fund's returns were at the top of the entire industry, recording an average annual gain of 28.1% over the previous decade.

One man credited with helping Sprott rack up those big gains in 2007 was David Tomljenovic, who had joined Sprott from Clarus Securities in 2005, and brought the Timminco story to the attention of Eric Sprott and his firm. "Maybe once or twice in your career do you get to be involved with a stock that can potentially do what this one has," Tomljenovic said of Timminco in 2008. "It's the most exciting thing I've ever been involved with."

Sprott's firm began buying Timminco at about 40 cents, and as the share price rocketed higher, continued to build on its position until it had amassed 17% of the stock or about one-third of the free float. The average price the firm paid for its Timminco stake was reportedly about $6 per share. Speaking on the condition of anonymity, a former Timminco executive conceded that once a firm like Sprott or Fidelity Investments decides to invest big in a small company, powerful market forces take over. "When these people get on a story, they know how to make money. And God help you if you're the vehicle they're using because you can't do anything about it...boy, people can run it. They can really run it."

As the believers held sway, it took a while for the doubters to pick up on the Timminco story. The first real sign of trouble came in April, 2008, a little more than a year after the breakthrough in Bécancour was bruited. Barron's, the U.S. financial industry's Sunday read, questioned the logic behind the stunning run-up in the company's shares - from under 30 cents to more than $22 in a year.

The article pointed out the contrast between Timminco's ambitions and the experience of far larger players, such as Elkem, then a unit of Norway's Orkla, which was spending over $700 million (U.S.) to build a solar-grade silicon plant that would use a different metallurgical process. Timminco, meanwhile, said the repurposing and expansion of its plant would cost less than $90 million. The piece also noted that Timminco was still generating losses and opined that its share price was "far ahead of reality." Senior editor Bill Alpert wrote, "so far, the evidence for Timminco's breakthrough appears in PowerPoint slides, not in financial reports."

Much of the Barron's piece dovetailed with research by Manuel Asensio, an eccentric and combative New York short seller. Although he had an MBA from Harvard, Asensio had never joined the ranks of Wall Street's top-tier trading houses. He preferred to work with a small team of researchers at his own firm, Mill Rock Investment Advisors, ferreting out companies whose claims seemed too good to be true.

Asensio insisted that science was not on Timminco's side. It was, he said, impossible on a commercial scale to remove enough boron and phosphorous impurities metallurgically from silicon to obtain a product pure enough to make solar cells. Others, he said, had tried the metallurgical method for years, and failed.

"[Timminco] produced some dirty stuff. And they figured out how to make the dirty stuff go to the edges. They cut off the dirty stuff and they kept doing it," Asensio said in an interview at his small Manhattan office. (Despite his dogged research skills and a strong track record, credibility has often been an issue for the Cuban-born American. During the course of the two-hour interview in June, Asensio continually steered discussion toward his battles with the American government. His six-pound chihuahua, Mia, sat curled up in his lap.)

"So at the end of the day, no matter how many times they did it, there was a physical limitation on the amount of boron and phosphorous they could remove from silicon," Asensio said. "And that's the way God did it. That's the way God invented it. That's the way God created it. God's laws are not going to change."

As critics started to question Timminco's claims, the firm countered that the solar industry had endorsed and validated its product. It had, after all, won a series of supply contracts with solar-cell manufacturers including the world's largest, Germany's Q-Cells AG. In the March, 2008, press release announcing the Q-Cells deal, René Boisvert said the contract was "further evidence of the paradigm shift we are creating in the solar-grade silicon market." The announcement included a statement from Q-Cells' CEO, Anton Milner, who said that his company had tested unblended material from Timminco "extensively" and that it "obtained very good results in cell production."

Another key Timminco doubter besides Asensio was Toronto fund manager Ravi Sood; Timminco's deals did nothing to change his mind. Given the high price and short supply of polysilicon, Sood reasoned, there was no possible downside for solar manufacturers in placing an order to see if Timminco's claims were true.

In 2008, Sood was managing money and running the top hedge fund at Lawrence Asset Management. A rock star of the investment world, Sood had joined Lawrence in his early 20s as a protégé of the firm's founder, Jack Lawrence. Sood was just 31 when he inserted himself into the Timminco debate by calling the company's shares "virtually worthless" during an interview on Business News Network (BNN). "There is no evidence that they have any sort of proprietary technology. There is no evidence that they can actually deliver on their claims," Sood said.

Sood had done his research. When Timminco first caught his attention during its run-up in 2007, he thought that perhaps he had missed the boat on a truly innovative technology. But Sood spoke to a number of industry experts who said it was highly unlikely that Timminco had developed an economically feasible metallurgical process to produce silicon pure enough for the solar industry. "It was studied ad nauseam in the '80s - is there a way to do this metallurgically?" Sood said in a recent interview. "And it was proven on a bench scale that it does work. But the metallurgical process does not scale. So you can't just make it 20 times as big. ...It just doesn't work."

When Sood spoke to BNN in April, 2008, he had already taken out a massive short position of 1.6 million Timminco shares at an average price of $22.01. The further Timminco stock fell - it was then around $25 and volatile - the more he and his hedge fund stood to gain.

Schimmelbusch seemed to view the activity of short sellers as personal attacks on him. "When you go up 7,000% in the share price, what else is a short guy but attracted to you?" he said at Timminco's AGM in May, 2008. "I'm not a short guy. I'm mostly long. It is an old, very wise thing, that in commodity markets you shouldn't be short. It's dangerous," he warned ominously.

Timminco responded to Sood's comments by filing a $6-million libel suit against him, alleging that Sood's statements "meant or were understood to mean" that "Timminco conducts business in the same way as Bre-X did." A similar legal action was filed against Manuel Asensio. The critics were muted.

But if Timminco had doubters, it also had believers willing to speak up. Sprott and his legion of fund managers weren't shy about spreading the good news about Timminco. Sprott attended the company's AGM in May, 2008, at the Royal York Hotel in Toronto - a presence that lent support to Schimmelbusch in the face of mounting skepticism. "To doubt is easy," Sprott told me in April, 2008, when I asked about his firm's enormous wager on Timminco. "What you get paid for in this business is figuring out if something is right early, while everybody else is doubting. That's how you make money."

Sprott fund managers took turns going to bat for the stock on BNN. They testified about Timminco on call-in stock-picking shows watched closely by a small but dedicated army of retail investors. They constantly talked up the company and explained how it was likely going to transform the solar industry. For example, in July, 2007, when Timminco was trading at about $5.75 per share and Sprott was still building up its stake, Sprott fund manager Peter Hodson was on BNN recommending the stock. A year later, when Timminco shares had slipped from their $35 highs, Hodson was still touting them. "This is a great example of paying more for a company that is less risky than it was a year ago," Hodson said. When asked about the critics and short sellers who questioned Timminco's secretive ways and raised potential credibility issues, Hodson said: "Quite honestly, that whole argument is a crock."

On July 15, 2008, just a week after Hodson's BNN appearance, it was the turn of superstar Sprott fund manager Jean-François Tardif. He said if the company was able to deliver on its promises, the stock could easily go to $50 or even $100. What Tardif didn't mention (and he wasn't asked) was the fact that he had already sold the bulk of his fund's stake in Timminco.

Timminco stuck to its claims as doubts mounted. Citing competitive concerns and its patent-pending process, Timminco disclosed few details about its breakthrough, saying only that it had employed well-known metallurgical techniques, along with a number of new tweaks and innovations. But the wall of secrecy only gave more ammunition to Timminco's critics.

One man who saw inside Timminco's secret plant was Michael Rogol, who headed Boston-based Photon Consulting. Photon had been a significant benefactor of the solar boom, and as the creator of a trade magazine and conferences for the industry, it had a stake in the good times continuing. Rogol, who had once worked for the consulting firm McKinsey, had often expressed a bullish view of the industry's prospects.

In a bid to counter the rising skepticism about its technology, Timminco invited Rogol to visit Bécancour. Rogol toured the plant for a day in May, 2008, and produced a glowing report that predicted Timminco and its new process had "potential for massive growth and, possibly, for reshaping industry."

Prefaced by the caveat that it was only a "preliminary assessment," Rogol's report predicted that Timminco could potentially produce up to 10,000 tons of solar-grade silicon in 2009 and as much as 20,000 tons in 2010. With a potential selling price of between $45 and $65 a kilogram, and production costs of between $13 and $22 a kilogram, Timminco was poised for a 2010 operating profit of between $270 million and $1 billion, Rogol's report breathlessly forecast.

But while the company was in defensive mode, its story was still holding up with investors. Timminco's stock peaked on June 5, 2008, touching $35.69 and giving the once-sleepy company a market value of more than $3.5 billion.

May was also the month that Sprott Inc. launched its IPO, allowing Eric Sprott to sell part of his 78% stake in the firm that he founded. There is little doubt that Sprott's massive stake in high-flying Timminco shares helped generate enthusiasm for the offering. Although Sprott claimed the IPO was dogged by short sellers, the share sale placed a $1.5-billion value on the company, making Sprott a billionaire on paper.

Just half a year later, by late November, however, Timminco shares had nose-dived to a mere $2.75. Although the stock would show occasional faint signs of recovery over the next year, it was the beginning of a death spiral for Timminco. It all happened very quickly.

The first setback came on Aug. 12. Timminco disclosed that it had run into contamination problems with some of its solar-grade silicon and had shipped just 221 tonnes during its second quarter, well below forecasts of 300 tonnes. Timminco's target of producing 2,000 tonnes of solar-grade silicon in 2008 was now seriously in doubt. The stock skidded 24% in one day, closing at $15.10. In Bécancour, Boisvert lashed out at short sellers. "They are having a field day. I hope they enjoy themselves, because this is very short-term thinking," he said.

To make matters worse, The Globe and Mail reported that Tardif had reduced his holdings in Timminco from 4% of his portfolio to just 0.6%. "I sold most of my stuff on the way up and that's my style," Tardif said at the time. "I sold some in the low $20s, mid-$20s, high $20s, and the $30s...because my strategy is always to put the most money in my best idea in terms of risk-reward today."

Also in August, the company was hit by a scornful analyst report published by the independent Toronto firm ***Veritas Investment Research***, adding dissonance to the pro-Timminco chorus on Bay Street. That chorus included a handful of bullish Bay Street analysts from small sell-side shops (which were also underwriters of Timminco financings) such as Carolina Vargas of Clarus Securities Inc. and Marvin Wolff of Paradigm Capital Inc. They each called Timminco a screaming buy and respectively claimed the stock was destined to hit $45 and $50 a share.

Unlike the sell-side firms such as Clarus and Paradigm, ***Veritas*** has no sales, trading or investment banking operations. Its report, by ***Neeraj Monga*** and Chris Silvestre, said it would be a "miracle" if Timminco was able to deliver on its promises, and said a decision to invest in the company "boils down to management's credibility." ***Veritas*** suggested that there were two possible scenarios to account for the company's stratospheric stock increase.

"The first is that management is promising the moon with respect to product specification, cost estimates and production capabilities, and that Safeguard LP wisely timed the IPO of Timminco and its exit thereof [through the IPO of AMG]. The second is that the private-equity LP had reached the end of its specified life and management is telling the truth. The stock is either worth $0 or a lot more than where it's trading. We advise erring on the side of caution. Sell."

Veritas had the right call. In late November, 2008, just six months after Timminco stock was trading above $35, it had plunged below $3. Apart from problems particular to Timminco, the solar industry itself was imploding amid the deepening global financial crisis. The price of polysilicon was in free fall.

The bad news kept coming. Timminco started issuing stock to raise cash, and AMG purchased most of the shares. In March, 2009, Timminco slashed production of silicon and halted expansion plans. In April, Timminco disclosed that some of its customers were terminating their contracts due to what it called "non-compliance." The following month, the company revealed that it was refunding a customer's $5.6-million contract deposit with 3.6 million Timminco shares. In October, AMG said it would buy 80 tonnes of Timminco's solar-grade silicon - offering the company a temporary repository for a product that was no longer wanted by the solar industry. In March, 2010, almost three years to the day from its breakthrough announcement, Timminco said it would suspend production of silicon for the solar industry. By August of 2011, Schimmelbusch had stepped down as CEO. During that year, the price for polysilicon fell to $27 a kilogram, down from the $400 a kilogram it was fetching at the peak of the solar boom in 2008. Despite a series of emergency loans from AMG, on Jan. 3, 2012, Timminco filed for bankruptcy protection from its creditors.

Almost no one emerged from the Timminco debacle unscathed.

While the temporary gains from its Timminco stake helped Eric Sprott and his firm mount a successful IPO, the fund company - Tardif's fund aside - eventually suffered significant losses on the stock. "Eric rode it up and he rode it down," David Tomljenovic says. Shares of Sprott Inc. have not yet returned to their $10 IPO price. Sprott's fund returns, however, recovered strongly, as commodity prices and resource stocks rebounded, and the firm now has about $9.7 billion of assets under management. Sprott declined to be interviewed for this story.

Jean-François Tardif, the fund manager who sold out of Timminco shares before the crash, "retired" from Sprott in 2009, leading to a temporary spike in redemptions from some of the company's funds. Tardif recently launched a new investment management company associated with First Asset Investment Management. He also declined to be interviewed for this story.

David Tomljenovic no longer works for Sprott and is now an investment banker in Toronto with Beacon Securities, a small investment advisory firm based in Halifax. He insists that he and Eric Sprott believed that Timminco had the ability to transform the market for solar-grade silicon.

"We all drank the Kool-Aid," Tomljenovic said in an interview. "I did as much digging on that as I could have done." Timminco, he said, was an investment with miles of potential upside but also plenty of risk. "If it works, it's a global sea change in a huge industry. And if it doesn't work, it fucking goes to zero." Tomljenovic doesn't believe the short sellers were right and maintains that, thanks to the solar industry collapse, it's not possible to know if Timminco could have delivered on its promises. "The process wasn't allowed to run its course," he said, adding that he stands by his research and his call.

Fidelity Investments also booked big losses on its Timminco holdings. It declined to comment on Timminco.

Manuel Asensio continues to operate his firm Mill Rock, spending much of his time posting articles on a website he runs called the Alliance for Economic Stability. Asensio insists he never directly held a short position in Timminco shares but was compensated indirectly by others who were short the stock. He did, however, hold a short position in Sprott shares.

"We're all flawed, we're all greedy, we're all willing to believe something that's not real," he said when asked to find meaning in the Timminco story. "The illusion of depending on regulators to protect your own interests, even as a big group such as equity investors, is something that you should not rely on. ...Almost biblical, huh?"

Ravi Sood's life changed dramatically in the months after his first public confrontation with Timminco. As the manager of Lawrence Asset Management's flagship hedge fund, he'd posted a smashing annual return of 75% in 2006 and a return of 20% the next year. But 2008 turned out very different. The fund sank amid the market crash and was hit with a wave of redemptions. In November, 2008, the Bank of Montreal called in a large loan, forcing Sood to blow out a number of positions in the heavily leveraged fund. In August, 2009, with Sood's fund teetering on the brink, his mentor Jack Lawrence was killed in a plane crash. Amid mounting losses and investor redemptions, Sood was soon forced to sell what was left of the fund.

Today Sood is based in Hong Kong. He heads a gold company and another firm that operates a palm oil plantation in the Democratic Republic of Congo. Both companies are publicly traded (Sprott is a shareholder of both).

Even amid the very public meltdown of his investment funds, Sood said he was quietly pleased that he was able to hang on to most of his 1.6 million-share Timminco short position. While he had to pay back some when Timminco's stock was trading at $8, he says that he covered more than a million shares when Timminco fell to 60 cents in 2010. It appears he made about $20 million. "It was buried under $250 million of other losses...but otherwise it was the best trade ever," he said.

Timminco's lawsuit against Sood, like the one against Asensio, appears to have been settled out of court.

In May, 2009, a $540-million class action lawsuit was filed on behalf of Timminco shareholders against the company and many of its executives, including Schimmelbusch, Spector and Boisvert. Michael Rogol, the author of the enthusiastic report on Timminco's future, is also named in the suit, along with several former directors of Timminco. The proposed suit alleges that Timminco and certain executives made "public misrepresentations" that the company had a "proprietary metallurgical base process" that provided a "significant cost advantage" over other producers manufacturing solar grade silicon for solar cells. The suit claims that "the defendants have never been able to demonstrate that the company's alleged proprietary process was more than a fabrication."

None of the allegations has been proven in court - and they may never be aired. A series of court decisions, culminating in a Supreme Court of Canada ruling in early August, have held that the complainants have taken too long to secure leave from a judge for the lawsuit to proceed.

Q-Cells, once Timminco's flagship customer, has fallen on hard times as the solar industry has been gutted. From a high of more than €97 in late 2007, the German company's stock was trading hands at €0.10 in July of 2012.

Schimmelbusch and Spector are still based in Wayne, Pennsylvania. Schimmelbusch is still the top executive at AMG. The company's stock, which traded above €62 in 2008, is valued by the market at less than €7 today. Schimmelbusch did not respond to interview requests for this story. Boisvert still works at the Bécancour plant; he also did not respond to interview requests.

Under a court-ordered process following its bankruptcy CCAA filing, Timminco's assets were put up for sale. On June 15, 2012, a deal was finalized that saw a company called Globe Specialty Metals pay $31.9 million for everything but the idled solar-silicon operations in Bécancour.

Those operations, which were the catalyst for the firm's onetime evaluation of more than $3.5 billion, were bought by the Spanish firm Grupo FerroAtlántica SA. The firm says it has developed a process to upgrade metallurgical silicon to purity levels high enough for use by the solar cell industry.

The sale price for Timminco's solar business was a grand total of $2.7 million.

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Timminco stock's wild ride

2000 / Safeguard International Fund buys Becancour Silicon

2001 / Thomas Timmins steps down as CEO of struggling Timminco

2003 / Safeguard buys minority position in Timminco and obtains majority control in side deal with Timmins

2004 / Timminco buys Becancour Silicon from Safeguard

2006 / Safeguard makes first of two loans to cash strapped Timminco

2007 / Timminco announces "breakthrough" in producing solar grade silicon

2007 / Safeguard transfers Timminco holdings to AMG Advanced Metallurgical Group

2007 / Between February and April, Timminco CEO John Walsh buys 352,000 shares in his company

2008 / Timminco accounts for about 25% of 2007 gains at Sprott Asset Management

2008 / Barron's and fund manager Ravi Sood question Timminco's breakthrough

2008 / Sprott Asset Management launches IPO

2008 / Timminco's stock peaks at $35.69, giving company a value of more than $3.5 billion

2008 / Sprott manager Jean-Francois Tardif finishes selling bulk of his fund's Timminco stake

2008 / Timminco announces first in series of problems in meeting production targets

2010 / Timminco suspends production of solar silicon

2011 / Heinz Schimmelbusch has stepped down as Timminco CEO

2012 / Timminco bankrupt, delisted from TSX

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Solar-industry developments

Pre 2000 / Worldwide annual production of photovoltaic units passes 200 megawatts

2003 / Global annual investment in solar and wind power exceeds $20 billion (U.S.)

2006 / Polysilicon shortage intensifies thanks to growing solar-panel production

2008 / Polysilicon spot prices hit an all-time high of $475 (U.S.) a kilogram

2008 / Spain's annual solar subsidy surges to €1.1 billion, up from €214 million in 2007

2009 / Ontario passes the Green Energy Act, subsidizing solar power

2011 / Solyndra, poster child for the American solar industry, files for bankruptcy protection

2011 / Worldwide annual photovoltaic production exceeds 67,400 megawatts

2011 / Solar panel prices fall 46% from the year before, as Asian production climbs