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The new market tax credit (NMRC) program and other community development model initiatives : an analysis performed by Center for Economic Development Research, College of Business Administration, University of South Florida

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The New Market Tax Credit (NMTC) Program and Other Community Development Model Initiatives

An Analysis Performed by

CENTER FOR ECONOMIC DEVELOPMENT RESEARCH
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Preface

The Hillsborough County Economic Development Department (HCEDD) commissioned the Center for Economic Development Research (CEDR) to conduct the applied economic research reported herein. The research project provides general information on Community Development Entities (CDEs), the New Market Tax Credit (NMTC) Program and other community development model initiatives.

CEDR, a unit of the University of South Florida's (USF) College of Business Administration (COBA), initiates and conducts innovative research on economic development. The Center's education programs are designed to cultivate excellence in regional development. Our information system serves to enhance economic development efforts at USF, COBA, and throughout the Tampa Bay area and the state of Florida.

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EXECUTIVE SUMMARY

The objective of this research is to provide background information on Community Development Entities (CDEs), the New Market Tax Credit (NMTC) Program and other community development model initiatives that might provide incentives for creating and promoting the Biosciences industry within the USF Enterprise Zone (EZ) and beyond.

A CDE is defined by the US Internal Revenue Service (IRS). Both qualifying CDEs and the NMTCs program are administered through the Community Development Financial Institution (CDFI) Fund within the US Department of Treasury. The CDFI Fund leverages private investment to benefit economically disadvantaged people and communities. It administers a competitive grant program that provides capital grants, loans, equity investments and awards to fund technical assistance to community development financial institutions (CDFIs).

A CDE is a domestic corporation or partnership that is an intermediary vehicle for the provision of loans, investments or financial counseling in “Low-Income Communities” (LICs). CDEs are required to demonstrate that they: (1) have a primary mission of serving, or providing investment capital for, LICs or Low-Income Persons, and (2) are accountable to residents of the LICs that they serve. The CDE entity must be certified by the CDFI Fund as a “Qualified” CDE to be eligible to apply for NMTC program.

The main objectives of CDEs, NMTCs and the financing opportunities put forth in this paper are to stimulate economic growth and community development in low income areas designated as Enterprise Zones (EZs) or sometimes called Empowerment Zones or Low-Income Communities (LICs).

A CDE participates in the NMTC program by: (1) applying to the CDFI Fund for an allocation of tax credits which, in turn, may be offered by the CDE to its investors in exchange for equity investments in the CDE, and (2) receiving loans or investments from other CDEs that have successfully competed for allocations of tax credits. Non-profit organizations are not eligible to offer NMTCs to their investors, since NMTCs may only be provided in exchange for an equity investment in a for-profit CDE. A non-profit organization may therefore want to establish a for-profit subsidiary entity.

There are other financing and organizational structure options for a community Bio-Science project related CDE. Double Bottom Line Investment Funds (DBLIF) and Early Stage Gap Financing are two important concepts discussed in this paper. DBLIF is a combined effort from the private and public sector for the betterment of the both. These funds have been used to promote and fund what is sometimes called “smart growth” activities. Early Stage Gap funding targets a specific phase in technology development. It targets where there is often a lack of funding in the process between “proof of concept” and “product development.”

Early Stage Gap Financing is also important for technology development. There are several kinds of government and university-engaged sources of gap financing, however Angel Investors are a significant source of private-sector funding. Angel Investors are wealthy persons, who provide risk capital for a “piece of the action.” In 2004 (latest data available) about 45,000 U.S.

companies received angel funding, which on average amounted to \$469,000. Most companies receiving angel funding were categorized as high-tech.

We conclude that there are many ways in which communities employ both private and public resources to attempt to stimulate and improve the well being of Low Income sections of their community. Although there are several different concepts and varieties of mix and match of funding sources and organizational involvement, the end results of all combined efforts must be to benefit economically disadvantaged people and communities. The primary mission of serving or providing investment capital for, Low Income Communities or Low-Income Persons, must be of the utmost importance.

A Bioscience project in the USF Enterprise Zone and beyond would be well suited for the use of any of the concepts discussed in this paper. Other communities have successfully done such projects.

1. Introduction.

The purpose of this study is to provide background information on the Community Development Financial Institution (CDFI) Fund, Community Development Entities (CDEs), the New Market Tax Credit (NMTC) Program and other community development model initiatives. Our report focuses on information that the Hillsborough County Economic Development Department (HCEDD) can use to model a CDE and other Community Development Investment funding model options that might provide incentives for creating and promoting the Biosciences industry within the USF Enterprise Zone (EZ) and beyond.

A CDE is defined by the US Internal Revenue Service (IRS). Both qualifying CDEs and NMTCs are administered through the Community Development Financial Institution (CDFI) Fund within the US Department of Treasury. A key element of this whole process is the CDFI Fund. It was created by Congress in 1994. Its mission is to expand the capacity of financial institutions to provide capital, credit, and financial services in underserved markets.

The main objectives of CDEs, NMTCs and the financing opportunities put forth in this paper are intended to stimulate economic growth and community development in low income areas designated as Enterprise Zones (EZs) or sometimes called Empowerment Zones or Low-Income Communities (LICs). The financing programs discussed relate to Bioscience projects.

The NMTC program was created by the Community Renewal Tax Relief Act of 2000 and enacted by the Consolidated Appropriations Act of 2001 (Public Law 106-554, December 12, 2000). General guidance on qualified CDE's was published in the Federal Register on May 1, 2001. There are a number of financing and organizational structure options for a community Bio-Science project related CDE. Double Bottom Line Investment Funds (DBLIF) and Early Stage Gap Financing are two important concepts discussed in this paper.

2. Information Sources.

Our primary information sources are The Department of Treasury, Community Development Financial Institutions Fund, and the Small Business Administration web sites. Other sources are:

- Capital Access and Asset Building NCCED Practitioner's Guide, Community Development Financial Institutions, Joe Akman, CDFI Coalition,
- 65806 Federal Register / Vol. 66, No. 245 / Thursday, December 20, 2001 / Notices DEPARTMENT OF THE TREASURY Community Development Financial Institutions Fund Guidance for Certification of Community Development Entities, New Markets Tax Credit Program,
- 67 Fed. Reg. 40116 (June 11, 2002). 385846_1.DOC Karen Williams Lewis Horowitz (503) 778-2134 (503) 778-2171 williamsk@lanepowell.com horowitzl@lanepowell.com 07/15/03 □ 2003 Lane Powell Spears Lubersky LLP 3,
- Capital Access and Asset Building NCCED Practitioner's Guide, New Market: New Market Tax Credit, Carol Wayman, NCCED,
- Presentation to Tampa Bay Partnership, by Jim Carras of Carras Community Investment, Inc. 2/13/2006,
- CDVCA's Double Bottom Line, by Anne Moore Odell, September 13, 2002,
- NEW MARKETS VENTURE CAPITAL (NMVC) PROGRAM Frequently Asked Questions (FAQs), US Small Business Administration, May 16, 2001,
- Community Comptroller of the Currency Developments Administrator of National Banks
- Summer 2002 Community Affairs OnLine News Articles Bank Enterprise Awards and New Markets Tax Credits: Two Tools to Increase the Flow of Private Capital in Targeted Markets, By Tony T. Brown, Director, CDFI Fund, and
- NIST GCR 02-841 Between Invention and Innovation, An Analysis of Funding for Early-Stage Technology Development.

3. Scope.

This research provides general information on Community Development Financial Institution (CDFI) Fund, Community Development Community Development Entities (CDEs), the New Market Tax Credit (NMTC) Program and other community development model initiatives. Our report focuses on information for modeling CDEs and other Community Development Investment funding model options that might provide incentives for creating and promoting the biosciences industry within the USF Enterprise Zone (EZ) and beyond. It addresses the following topics:

- The CDFI Fund.
- What is a CDE?
- How to form a “Certified” CDE.
- How a CDE might be used in the USF EZ and beyond to enhance economic activity.
- What is the New Market Tax Credit (NMTC) Program.
- Overview on how to apply for the NMTC.
- NMTC Application.
- NMTC Compliance and Recapture.
- Other Considerations.
 - Double Bottom Line Investment Funds (DBLIFs)
 - Community Development Venture Capital Alliance (CDVCA).
 - New Markets Venture Capital (NMVC) program.
 - Bank Enterprise Award Program (BEA).
 - Small Business Administration (SBA).
- Early Stage Gap Financing.
 - Angel Investors.
 - Universities.
 - Small Business Innovation Research Program (SBIR).
 - Small Business Technology Transfer Program (STTR).
 - Advanced Technology Program (ATP).
 - Example of Early Stage Bio-Science Financing.

Included in this report is a flow chart that summarizes the models and maps the interrelationships between the CDE and its subsidiary organizations to include structural links, and the flow of tax credits and equity incentives. This chart also shows the spin-off other funding model alternatives.

4. The CDFI Fund.

The CDFI Fund leverages private investment to benefit economically disadvantaged people and communities. It administers a competitive grant program that provides capital grants, loans, equity investments and awards to fund technical assistance to community development financial institutions (CDFIs). The Fund is:

- funded as an independent agency in the VA-HUD appropriations bill,
- unique among federal agencies because it takes an entrepreneurial approach to its programs, funding and strengthening institutions rather than specific projects,
- includes private sector financial intermediaries whose primary mission is community development, such as:
 - community development banks,
 - community development corporations,
 - community development credit unions,
 - community development loan funds,
 - community development venture capital funds, and
 - micro-enterprise loan funds. (Reference 1)

The CDFI Fund plays the most important role relative to the success of CDE's and NMTCs. It:

- is the largest *single* source of funding for CDFIs, and
- plays an important role in attracting and securing *non-federal* funds for CDFIs,
- CDFIs compete for federal support based on:
 - their business plan,
 - market analysis,
 - performance goals, and
 - ability to provide at least a 1:1 match of non-federal funds. (Reference 1)

CDFI Funds implement capital-led strategies to fight poverty and to tackle tough economic infrastructure issues such as:

- quality affordable housing,
- job creation,
- wealth building (Individual Development Accounts),
- financial literacy and education and microenterprise development,
- training, and
- providing basic financial services to the unbanked. (Reference 1)

CDFI Fund initiatives include the administration of:

- CDFI Program: Provides assistance to CDFIs and emerging CDFIs,
- Native Initiatives: Supports development and growth of Native American (NA) CDFIs,
- Bank Enterprise Award (BEA) Program: Provides awards to insured depository institutions for increasing investments in CDFIs and/or activities in distressed communities,
- New Markets Tax Credit (NMTC) Program which encourages private sector investments in communities experiencing persistent poverty. (Reference 13)

Certification as a Community Development Financial Institution (CDFI) or CDFI Certification allows organizations to participate in the Financial Assistance (FA) Component, Technical Assistance (TA) Component and NAI Component under the CDFI Program and to obtain additional benefits under the BEA Program. (Reference 12)

A certified Community Development Financial Institution (CDFI) is a specialized financial institution that works in market niches that are underserved by traditional financial institutions. CDFIs provide a unique range of financial products and services in economically distressed target markets, such as:

- mortgage financing for low-income and first-time homebuyers and not-for-profit developers,
- flexible underwriting and risk capital for needed community facilities, and
- technical assistance, commercial loans and investments to small start-up or expanding businesses in low-income areas. (Reference 12)

CDFI certification is conferred by the CDFI Fund and is a requirement for accessing financial and technical award assistance from the CDFI Fund through the CDFI Program and Native American CDFI Assistance (NACA) Programs to support an organization's established community development financing programs. (Reference 12)

To apply to become certified as a CDFI an organization must submit a CDFI Certification Application to the CDFI Fund for review and must:

- be a legal entity at the time of certification application,
- have a primary mission of promoting community development,
- be a financing entity,
- primarily serve one or more target markets,
- provide development services in conjunction with its financing activities,
- maintain accountability to its defined target market, and
- be a non-government entity and not be under control of any government entity (Tribal governments typically excluded). (Reference 12)

Timeline for 2005 was:

- Regulations Published: December 13, 2005,
- Application Available: December 29, 2005,
- Application Deadline: January 20, 2006.

Note: The Fund will expedite processing Certification Applications from CDFIs that are 2006 CDFI Program (Financial Assistance) applicants. Certification Applications from organizations not applying to the 2006 CDFI Program will be reviewed following 2006 CDFI Program award decisions and will take approximately three months to review. (Reference 12)

5. What is a CDE?

A CDE is a domestic corporation or partnership that is an intermediary vehicle for the provision of loans, investments or financial counseling in “Low-Income Communities” (LICs). CDEs are required to demonstrate that they:

- Have a primary mission of serving, or providing investment capital for, LICs or Low-Income Persons, and
- Are accountable to residents of the LICs that they serve. (Reference 13)

Generally, “Low-Income Communities” are:

- Census tracts with at least 20% poverty, or
- Census tracts where the median family income is at or below 80% of the area median family income. (Reference 13)

Any organization seeking CDE designation must apply to the CDFI Fund. Qualified Community Development Entity or CDE: means, under IRS section 45D(c)(1), any existing entity that is treated for federal income tax purposes as a domestic corporation or partnership that:

- the primary mission of the entity is serving, or providing investment capital for, Low-Income Communities (LIC) or Low-Income Persons,
- the entity maintains accountability to residents of Low-Income Communities through their representation on any governing board of the entity or on any advisory board to the entity, and
- the entity is certified by the CDFI Fund as a CDE. SSBICs, as hereinafter defined, and CDFIs will be deemed to be CDEs. (Reference 2)

Note. Applicant CDE can meet the Primary Mission Test by either directly or indirectly serving or providing investment capital for loans to individuals or businesses located in a L.I. community or invest in other entities that will in turn provide assistance in L.I. communities. The Accountability Test can be met by having through its advisory board at least 20% of its members representing L.I.

Any duly existing entity that is treated for federal income tax purposes as a domestic corporation or partnership may apply for certification as a CDE. For-profit and non-profit organizations may be certified as CDEs. (Reference 3)

Exceptions: Organizations that have been certified by the CDFI Fund as CDFIs, and organizations that have been designated as Specialized Small Business Investment Companies (SSBICs) by the Small Business Administration, automatically qualify as CDEs. (Reference 3)

Certification period:

- In general, a CDE certification designation will last for the life of the organization provided the CDE continues to comply with and meet the CDIF Fund’s NMTC Program requirements.
- Unlike CDE certification, CDFI certification is valid for only a defined time period. (Reference 6)

6. How to form a “Certified” CDE.

A “Certified” CDE is established by submitting a CDE Certified Application form, issued by the CDIF Fund, to be completed and submitted by an Applicant CDE. The application is submitted by an officer, or other individual, who has actual authority to sign for and make representation on behalf of the Applicant CDE.

The Applicant is any legal entity that is applying to the CDFI Fund to be certified as a CDE, either for itself or on behalf of its Subsidiaries. A Subsidiary Applicant may also apply for CDE certification with the Applicant CDE.

Certification as a Community Development Entity (CDE) or CDE Certification allows organizations to participate, directly or indirectly, in the NMTC Program. (Reference 12)

An example of a local CDE is: Neighborhood Lending Partners (NLP), an entity that is comprised of 38 Banks, located at 2002 N Lois Ave. Tampa FL. A list of CDE’s in Central Florida is at **Appendix A**.

Timeline for 2005 was:

- Application Available: July 11, 2005,
- Application Deadline: August 22, 2005

Note: The Fund will expedite processing Certification Applications from a CDE that is a current NMTC allocatee that submit a Certification Application to add subsidiary entities to its existing Allocation Agreement. The Fund will take approximately three months to review and finalize CDE applications. (Reference 3)

Maintaining CDE Certification involves:

- Each CDE NMTC Allocation awardee, as well as CDEs that are recipients of Qualified Low-Income Community Investments (QLICIs) from other CDEs, may be required to annually certify to the Fund that it continues to meet the requirements of:
 - Primary Mission and
 - Accountability
- The CDFI Fund may revoke a CDE’s certification if it fails to provide the requested information:
 - Information indicating that the entity remains accountable to the LIC(s) it is serving, and
 - A certification statement certifying that no material changes have occurred to affect their current status as a CDE. (Reference 3)

Qualified Low-Income Community Investments (QLICI) are:

- Any capital or equity investment in, or loan to, any “Qualified Active Low-Income Community Business” (QALICB),
- Any equity investment in, or loan to, any CDE,
- Purchase of a loan from another CDE if the loan is a QLICI,
- “Financial Counseling and Other Services” (FCOS) to businesses located in, or residents of, LICs. (Reference 13)

7. How a CDE might be used in the USF EZ and beyond to enhance economic activity.

A CDE may participate in the NMTC program in two different ways:

1. It may apply to the Fund for an allocation of tax credits which, in turn, may be offered by the CDE to its investors in exchange for equity investments in the CDE. The CDE must be “certified” as a CDE in order to benefit from the NMTC Program, or
2. It may receive loans or investments from (and sell qualifying business loans to) other CDEs that have successfully competed for allocations of tax credits. (Reference 3)

The CDFI Fund will permit organizations to transfer all or a portion of their allocation authority to subsidiary entities (subsidiary allocatees), provided that each such subsidiary:

- has been certified as a qualified community development entity (CDE) by the CDFI Fund,
- is included as a party to an allocation agreement, either at the time of initial execution or through a subsequent amendment, and
- is “controlled” (as defined in the allocation agreement) by the allocatee at all times throughout the term of the allocation agreement. (Reference 6)

In order to demonstrate a controlling influence over the investment decisions of a subsidiary allocatee, the allocatee must, at a minimum, have the authority to propose potential NMTC investments and the authority to approve all proposed transactions involving the use of NMTC proceeds. (Reference 6)

The entity maintains accountability to residents of Low-Income Communities through their residence representation on any governing board of the entity or on any advisory board of the entity.

Non-profit organizations are not eligible to offer NMTCs to their investors, because NMTCs may only be provided in exchange for an equity investment in a for-profit CDE. A non-profit organization may therefore want to establish a for-profit Subsidiary entity as a CDE so that:

- the for-profit Subsidiary CDE may apply directly to the Fund for an allocation of tax credits; or
- the non-profit parent may apply to the Fund for an allocation of tax credits with the intention of transferring allocations to its for-profit Subsidiary CDE(s).

A governmental entity may apply for designation as a CDE, provided the entity is classified as a corporation or partnership for federal tax purposes and would meet the legal entity requirement (which is subject to legal interpretation by the CDFI Fund). (Reference 3)

There are several alternative approaches to utilizing NMTCs. For example:

- sponsors may elect to form and qualify a CDE:
 - propose a single project or undertaking for a credit allocation,
 - apply for a NMTC allocation that would generate equity investments in support of their community development programs. (Reference 4)

- A more sophisticated approach is to develop a broad community development strategy that utilizes combined sources of funding in order to accomplish a blend of:
 - small business lending,
 - marquee projects,
 - venture capital participation, and
 - related community development activities. (Reference 4) (See other considerations below).

8. What is the New Market Tax Credit (NMTC) Program.

New Markets Tax Credits are available through a program established by Congress December 12, 2000 as part of the Community Renewal Tax Relief Act of 2000. It creates a tax credit for equity investments in CDE's. The tax credits have rough similarity to Low-Income Housing Tax Credits, but instead of being a tool for the development of affordable housing, NMTCs are a tool for accomplishing community and economic development. (Reference 4)

Throughout the life of the NMTC Program, the CDFI Fund is authorized to allocate to CDEs the authority to issue to their investors up to the aggregate amount of \$15 billion in equity as to which NMTCs can be claimed. NMTCs are allocated annually by the Fund to CDEs under a competitive application process. Applications for FY 2006 were due on September 21, 2005. These CDEs then offer the credits to taxable investors in exchange for stock or a capital interest in the CDEs. (Reference 5)

The amounts for each of 5 rounds are as follows:

- 2001-02 \$2.5 billion,
- 2003-04 \$3.5 billion,
- 2005 \$2 billion,
- 2006 \$3.5 billion, and
- 2007 \$3.5 billion.
- TOTAL \$15 billion.
- Unallocated investment authority may be carried over from year to year through 2014. (Reference 13)

NMTC Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated CDEs. Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. The credit provided to the investor

- totals 39% of the cost of the investment,
- is claimed over a seven-year credit allowance period;
 - In each of the first 3 years, the investor receives a credit equal to 5% of the total amount paid for the stock or capital interest at the time of purchase, and
 - For the final 4 years, the value of the credit is 6% annually,
- may not redeem their investments in CDEs prior to the conclusion of the seven-year period. (Reference 5)

For example, the Fund awards an allocation of \$1 million to a CDE. The CDE offers the tax credit to investors. Ten investors each invest \$100,000 in return for tax credits. Each investor's claim as a tax credit is:

- Years 1-3 Tax Credit at 5% Value \$5,000 per year,
- Years 4-7 Tax Credit at 6% Value \$6,000 per year.
- TOTAL VALUE OVER 7 YEARS.....\$39,000. (Reference 13)

Timing of Investments:

- CDEs must offer NMTCs to investors within 5 years of receiving an allocation,
- “Substantially all” of the investor proceeds must be invested in QLICs within 12 months,
- Years 1-6: Substantially All = 85% of amount paid by investor at original issue,
- Year 7: Substantially All = 75%,
- At all times, 5% of the original QEI issue amount may be used for certain reserves by the CDE and counts towards meeting the substantially all test.
- QEI proceeds must be invested in QLICs throughout the 7- year credit period CDE reinvestment requirement:
 - Years 1-6:
 - Generally, returns of equity, capital or principal must be reinvested within 12 months,
 - Periodic loan repayments may be aggregated for up to 24 months before reinvestment is required,
 - Reinvestment is not required in the final year of the 7-year credit period.
(Reference 13)

The Community Development Entity avoids recapture by investing “substantially all” of its assets into eligible projects and activities, during the seven-year compliance period. For these purposes, there is a safe harbor of 85% of gross assets, to meet the "substantially all" test. (Reference 4) (See Compliance and Monitoring section.)

Once a CDE secures an allocation of credits:

- It sells the tax credit certificates to private investors.
- In return, investors receive a tax credit certificate from the CDE to attach to their Federal income tax forms.
- has five years to market the credits they receive from the Treasury Department.

Investor’s ability to claim NMTCs are:

- NMTCs are offered to investors for “Qualified Equity Investments” (QEIs) in the CDE,
- QEI is any purchase of stock or capital interest in a for-profit corporation or partnership,
- QEIs must remain invested in the same CDE for a 7-year credit period, and
- Investors generally may claim credits as of the date a QEI is initially made. (Reference 13)

The Corporate Tax Bill (HR 4520) enacted in the Fall of 2004 included three provisions sought by community development advocates to make it easier to use the program in rural areas.

- Authorizes the Treasury Secretary to designate "targeted populations" as low-income communities for purposes of the NMTC.
- Provides that a census tract with a population of less than 2,000 will be treated as a low-income community for purposes of the NMTC if the census tract is within an empowerment zone and is contiguous to one or more low-income communities.
- Provides additional flexibility to rural counties in meeting the low-income test if they have suffered from a significant population loss. Under the revised statute, if a census tract is located in a high migration rural county, low-income is defined by reference to 85

percent (rather than 80 percent) of the statewide median family income. The provision defines a high migration rural county as any county that, during the last 20-year period ending with the year in which the last census was conducted, has a net out-migration of inhabitants from the county of at least 10 percent of the population of the county. (Reference 8)

9. Overview on how to apply for the NMTC.

Application is made to the CDFI Fund usually by September. As Provided by IRS Section 45d(1), the CDIF Fund allocates NMTC Authority to both for-profit and non-profit through a competitive application process pursuant to a Notice of Allocation Availability (NOAA) published in the Federal Register.

In order to be eligible to apply for NMTC Allocations an Applicant must:

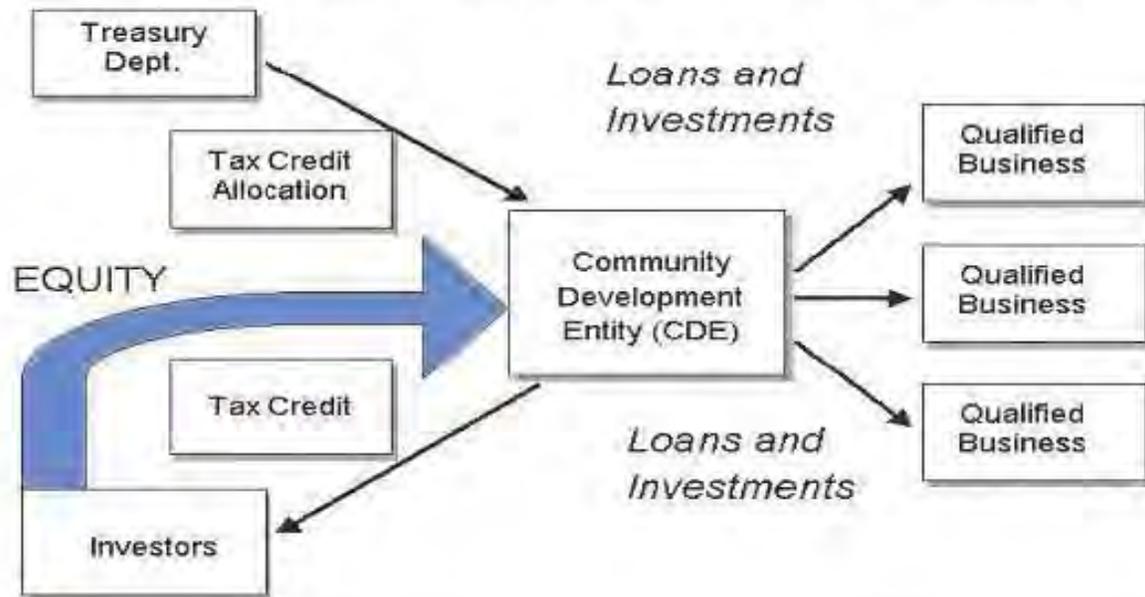
- be legally incorporated or formed as a domestic corporation or partnership for Federal tax purposes,
- have a valid Employer Identification Number (EIN) at the time of application submission, and
- be certified as a CDE by the Fund or have a CDE Certification Application pending with the Fund. (Reference 5)

Because NMTCs can only be offered to taxable investors that purchase stock or capital interest in a CDE, only for-profit CDEs may offer NMTCs to their investors. However, a non-profit entity may apply for a NMTC Allocation with the intention of transferring the Allocation to one or more for-profit Subsidiaries. The for-profit Subsidiaries do not have to be formed at the time the non-profit CDE applies for NMTC Allocations. Entities that are Affiliates may only collectively submit one Allocation Application per year under the NMTC Program. In order to transfer any portion of its NMTC Allocation to a Subsidiary, an Applicant must:

- exercise “Control” over the Subsidiary entity, as such term is defined in the NOAA and Glossary of Terms that accompanies the Allocation Application; and
- indicate in its Allocation Application an intent to make a transfer of Allocations. (Reference 5)

The following chart depicts the flow process of the NMTC as discussed to this point. It indicates that the process emanates from the US Treasury Department and centers on the CDE that has become qualified for NMTC program. The chart shows Investors receiving Tax Credits in turn for Equity in the CDE.

How New Markets Tax Credits Work



(Reference 14)

10. NMTC Application Process.

An overview of the application process is:

- Step 1: Entities apply to the Fund for CDE certification,
- Step 2: Entities apply competitively to the Fund for a NMTC allocation,
- Step 3: The CDFI Fund selects CDEs to receive NMTC allocations,
- Step 4: CDEs use allocations to offer NMTCs to investors for cash, and
- Step 5: CDEs use proceeds to make “Qualified Low-Income Community Investments” (QLICs). (Reference 13)

Appendix B depicts a summary of the CDE relationships and NMTC development process with Tax Credit flow.

The Application form includes applicant instructions, requirements for assurances and certifications, general information and a glossary. The Application is divided into four parts. Each part has a 25 point value with Part 1.B and 1.D have 5 extra points making the total possible score 110 points. The four parts are:

- I. Business Strategy
 - a. Product, Services and Investment Criteria,
 - b. Prior Performance,
 - c. Projected Business Activities,
 - d. Investments in Unrelated Activities.
- II. Community Impact
 - a. Targeting the Use of QEI Proceeds within Low-Income Communities,
 - b. Economic Impacts – Prior Performance,
 - c. Economic Impacts – Projections,
 - d. Investment in Unrelated Entities.
- III. Management Capacity
 - a. Management Team,
 - b. Experience Deploying Capital or Services,
 - c. Experience Raising Capital,
 - d. Asset Management and Risk Management Experience,
 - e. Program Compliance.
- IV. Capitalization Strategy
 - a. Investment Commitments,
 - b. Investor Strategy, Sources of Capital,
 - c. Flow of Allocation. (Reference 12)

Appendix C lists key NMTC application scoring factors and the selection process.

The Review Process Timeline (based on prior round) is:

- Sept. - - Allocation application due,
- Oct. - Nov. - - Peer review,
- Dec. – Feb. - - Panel/Selecting official review,
- March – Apr - - Award processing, and
- May - - Award announcements. (Reference 13)

Appendix D provides information on Prior Round CDIF Financial Assistant Awards.

11. NMTC Compliance and Recapture.

Both the CDFI Fund and the IRS monitor program compliance. Also, accountability overview can include a review process by Advisory Board(s). For an Advisory Board to be accountable, it must:

- meet at least annually,
- solicit feedback semi-annually at meeting and through surveys,
- determine how the information is used or will be used to inform the actions of the governing board in developing the organizations policies,
- an Advisory board representative sits on the governing board, and
- member of the advisory board presents reports to the governing board, etc.

A CDE may demonstrate that it has satisfied the substantially all requirement in 2 ways:

1. Direct tracing - a CDE is required to trace Qualified Equity Investments QEI proceeds to specified QLICs, or
2. Safe harbor - a CDE must demonstrate that 85% of its aggregate gross assets are invested in QLICs. (Reference 13)

NMTCs may be recaptured from investors during the 7-year credit period if:

- The QEI fails the “substantially all” requirement, such as:
 - Failure to invest 85% as allowed,
 - Failure of investment to meet QALICB requirements, or
 - Failure to meet one-year investment requirement.
- The CDE ceases to qualify as a CDE.
- The CDE redeems the investment.

Note. It is not an event of recapture – and an investor may continue to claim NMTCs – if a CDE files for bankruptcy. (Reference 13)

Appendix E includes additional NMTC compliance criteria.

12. Other Considerations.

A. Double Bottom Line Investment Funds (DBLIFs)

DBLIFs represent a combined effort from the private and public sector for the betterment of both. These funds have been used to promote and fund “smart growth” activities.

- E1 = the equity of the private sector, that represents the upper quartile market returns for investors and
- E2 = the community equity, that provides measurable job, shelter and wealth creation.

DBLIFs focus investment in:

- Mixed-use commercial, industrial and housing projects,
- Affordable and mixed-income housing,
- Urban infill and brownfield cleanup,
- Transit-oriented development,
- Walkable employment centers,
- Profitable investment for developer and investors, and
- Measurable job and wealth for community residents.

DBLIFs are capitalized to succeed:

- Provide equity products higher returns by capitalizing on market imperfections,
- Proven incentive private management,
- High investor returns are appropriate to risk,
- \$2.5 billion invested by banks, pension funds, insurance companies, foundations, endowments and others,
- Community sponsors oversee most funds, and
- Close working relationship with public sector.

DBLIF use private market discipline:

- Funds managers chosen in competitive process,
- Investors and community involved in selection,
- Fund managers protected by firewall and at risk,
- Accountability to community stakeholders, and
- Sponsors participate in economic returns.

DBLIF investor appreciate returns

- Banks like CRA credit plus high returns,
- Insurance industry likes avoiding CRA plus high returns,
- Public pension funds like DBL plus high returns,
- Foundations like high corpus returns, not low PRI returns,
- Faith based investors slow to come on board, and
- Corporations and high net worth individuals are joining.

B. Community Development Venture Capital Alliance (CDVCA)

This is a form of DBLI. By investing capital in low-income communities, Community development venture capital funds create jobs and foster economic development. Community Development Venture Capital (CDVC) funds use the traditional tools of venture capital in new ways. These funds invest money in and offer business expertise to start-ups in Low-Income

Communities (LICs), a market that many other funds ignore. Like traditional venture capitalists, these funds expect quick growth in the businesses in which they invest; however, they are also interested in creating social returns for local neighborhoods. (Reference 10)

Many CDVCs are supported by the CDVCA, a membership-based, nonprofit organization that was established in 1995. CDVCA fills several important roles within the CDVC community. It:

- acts as an educational resource,
- a national voice in Washington, and
- channel for funneling money to member funds.

According to CDVCA, CDVC investments are more broadly distributed than traditional venture capital funds. CDVC funds can be quite different from one another. Some, for example, are structured as regular corporations and others are nonprofit tax-exempt corporations. Even with these differences, they share some common goals. (Reference 10)

C. New Markets Venture Capital (NMVC) program

The NMVC program is modeled after the Small Business Administration's (SBA's) extremely successful Small Business Investment Company (SBIC) program but has a specific mission of economic development in low-income (LI) areas. Through a combination of equity-type financing and intensive operational assistance to smaller businesses located in LI areas, the program seeks to:

- assist local entrepreneurs,
- create quality employment opportunities for residents, and
- build wealth within these communities. (Reference 11)

A NMVC company is a privately managed, newly formed, for-profit investment company formed for the purpose of providing equity-type capital and hands-on operational assistance to smaller businesses located in specific rural and urban areas. SBA will select NMVC companies as participants in the NMVC program through a competitive selection process. Successful applicants will enter into participation agreements with SBA. (Reference 11)

The difference between the purposes of the NMVC program and those of the Specialized Small Business Investment Company (SSBIC) program are:

- NMVC companies target entire communities for business investments while SSBICs seek business investments in small businesses owned by individuals that are socially or economically disadvantaged. NMVC firms focus on the geographic location rather than on the ownership of small businesses.
- However, SSBICs are eligible to apply for grant funds under the NMVC program to provide operational assistance to businesses located in LI areas, if such SSBICs plan to raise additional capital and use it to make developmental venture capital investments in such businesses. (Reference 11)

Appendix F lists some additional benefits of NMVC companies.

D. Bank Enterprise Award Program (BEA)

The Bank Enterprise Award (BEA) program is a well-established initiative that has enjoyed excellent participation by banks and thrifts, to which the CDFI Fund has awarded millions in recognition of their increased lending in economically distressed areas. These institutions, nearly a third of which have earned outstanding Community Reinvestment Act ratings, have some of the nation's best community development track records. They have done a superior job of leveraging their BEAs into almost 20 times that amount in community reinvestment. (Reference 14)

The BEA Program is the principal means by which the CDFI Fund achieves its strategic goal of expanding community development lending and investments by regulated banks and thrifts in low-income areas. The program provides incentives for regulated banks and thrifts to invest in CDFIs and to increase their lending and provision of financial services in distressed communities. (Reference 14)

The BEA Program recognizes and rewards the key role played by traditional financial institutions in community development lending and investing. It provides cash incentives for banks and thrifts to invest in CDFIs and to increase their financial services, lending and investments in distressed communities. Activities include:

- Banks and thrifts may receive awards for qualified CDFI Related Activities (Equity Investments, Equity-Like Loans and CDFI Support), Distressed Community Financing and Service Activities.
- Eligible CDFI Related Activities include investments in CDFI partners undertaking new or expanded initiative in hot zones. Loans, deposits and technical assistance given to CDFI partners with "limited assets" (under \$500 million for CDFI banks and under \$25 million for CDFI Credit Unions and non-regulated CDFIs) will also qualify.
- Distressed Community Financing includes affordable housing loans, affordable housing development loans, education loans, commercial real estate loans, home improvement loans, and small business loans.
- Service Activities consist of financial services, community services, targeted financial services, and targeted retail savings/investment products. Award percentages for eligible activities have been reduced across the board, and maximum award amounts are \$0.5 million per applicant. (Reference 1)

E. Small Business Administration (SBA)

Financing programs provided by the SBA vary according to a borrower's financial need. SBA loans are made by private lenders and are guaranteed up to 85%. SBA Loans look for:

- Good character
- Management expertise and commitment for success
- Sufficient funds, including SBA guaranteed loan, to operate the business on a sound financial basis (for new businesses, this includes the resources to meet start up expenses and the initial operating phase.)
- Feasible business plan
- Adequate equity or investments in the business.

- Sufficient collateral
- Ability to repay the loan on time from the projected operating cash flow.

Three principal players are involved in the SBA Guaranteed Loan Process,

- the Small Business Borrower,
- the Private Lender, and
- the SBA.

The Private Lender determines whether a borrower's application is acceptable. If it is, the Lender forwards the Application and its credit analysis to the SBA. If the guaranty request is approved by the SBA, the lender disburses the funds to the borrower. The eligibility requirements and credit criteria of the program are very broad and the lender must certify that it could not provide funding on reasonable terms except with the SBA guaranty. The maximum guarantee is one million dollars.

SBA General Loan Information:

- Business name, names of principals, social security numbers for each,
- Purpose of the loan,
- Amount required,
- Business description (history and nature of business),
- Management profile,
- Marketing information, and
- Financial Information (statements, balance sheets and income statements for past three years). If a start up, provide a projected balance sheet and income statement for three years.
- Also, Personal financial statement on all principal owners of the business, and
- Collateral to be pledged the loan security.

Though there are various SBA Loan Programs, the SBA program 504 would be for this entity. The 504 Program is for Certified Development Companies (CDC), for profit only and comes under the 504 program. Key factors include:

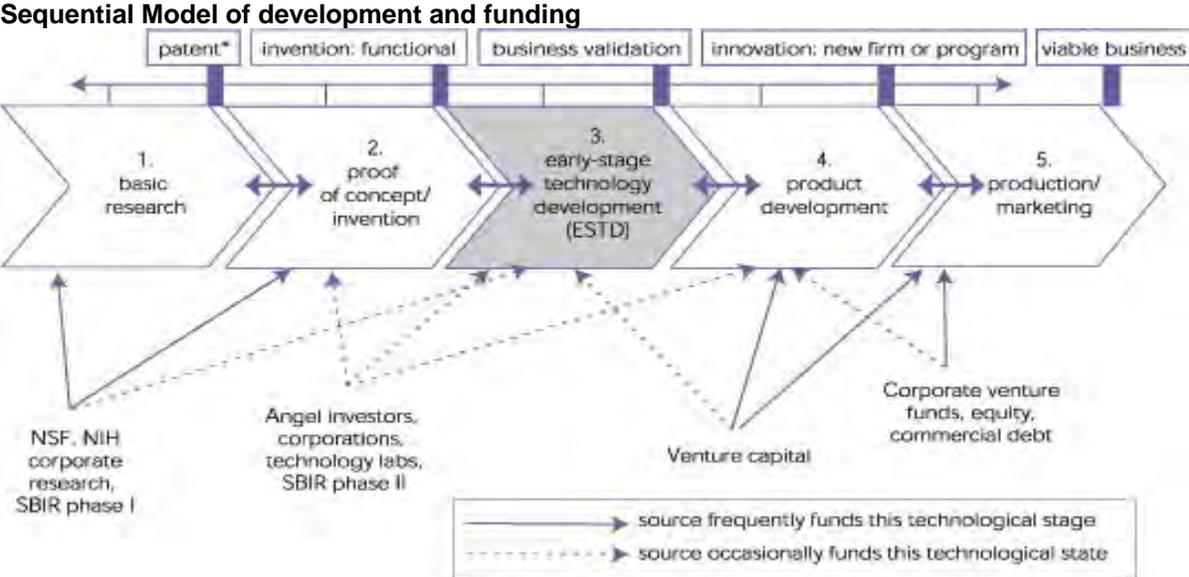
- SBA guarantees 100% of the 504 Loan portion instead of the usual 85%,
- the total projected cost cannot exceed one million dollars,
- Fixed Loan Rates are for 20 years,
- serve communities by financing business expansion needs,
- rates are usually below market rate,
- collateral is typically assets-financed (allowing other assets to be free of liens and available to secure other needed financing), and
- banks and other lenders are encouraged to make loans in first position on reasonable terms (helps them retain growing customers and provide Community Redevelopment Act credit).

13. Early Stage Gap Financing.

This type of funding targets a specific phase in technology development. Where there is often a lack of funding in the process. It strives to fill this gap and provide the catalyst to complete and launch new technology products and services.

- Technology development and Funding model,
- Angel Investors,
- Universities,
- SBIR,
- STTR, and
- ATP.

The best way to explain this type of financing is to start with an examination of the technology development and funding model.



The region corresponding to early-stage technology development is shaded in gray. The boxes at top indicate milestones in the development of a science-based innovation. The arrows across the top of, and in between, the five stages represented in this sequential model are intended to suggest the many complex ways in which the stages interrelate. Multiple exit options are available to technology entrepreneurs at different stages in this branching sequence of events. (Reference 15)

Venture economics defines the stages of project development as follows:

- Seed financing usually involves a small amount of capital provided to an inventor or entrepreneur to prove a concept. It may support product development, but rarely is used for production or marketing.
- Startup financing provides funds to companies for use in product development and initial marketing. This type of financing usually is provided to companies that are just getting

organized or to those that have been in business just a short time, but have not yet sold their products in the marketplace. Generally, such firms have already assembled key management, prepared a business plan, and made market studies.

- First-stage financing provides funds to companies that have exhausted their initial capital and need funds to initiate commercial manufacturing and sales. (Reference 15)

A. Angel Investors

Angel Investors are identified in the development and funding model above. They are a unique source of funds. The term “angel” investor comes from the theater, where wealthy individuals took very high risks in funding the production of Broadway shows. By analogy, angels in high-tech investing are traditionally individuals with a successful record of commercial innovation, who use their wealth and their experience to invest very early in new, high-tech businesses. (Reference 15)

The provision of risk capital by wealthy individuals for support of technology development goes back as far as seventeenth and eighteenth century systems of patronage. Organized venture capital, in contrast, is a recent phenomenon, dating back only as far as the immediate post-World War II era. Angel investing has, in past years, undergone a surge related to the dramatic growth of venture capital disbursements. (Reference 15)

These investors are looking for an attachment and a return, so [the firm is] getting a little bit more than just money, but it is a financial deal. They have to be close to that deal, face to face. They want to be close to home both to enjoy that and to bring value to the company. These angels are value-added investors. They want to bring more to the party. Angel investors need to sit on the board. They call themselves ‘mentors for money.’ What they want to do is be involved with the excitement, but they don’t want the sleepless nights sitting there on Thursday night wondering if you’re going to meet cash flow on Friday for payroll. They want to help this company out, but it’s not just for benevolent reasons, which is why some angels do not like the term ‘angel.’ It is for hard-nosed financial reasons. They feel like they can help this company, put it in a better position to both grow and to be ready for the next round of financing. (Reference 15)

Appendix G contains additional information on Angel Investors. This information includes:

- What is an Angel Investor?
- Angel Investor Networks and Groups
- Summary of Angel Investor References
- Examples of Angel Networks and Their Activities

B. Universities

Research universities in the United States have a long history of research and consulting by faculty in support of American industry. At the Palo Alto workshop, John Shoch of Alloy Ventures identified four primary mechanisms by which universities become engaged in supporting technology development. He used Stanford University as an example.

- First, to maximize returns on their endowments, universities invest heavily in venture capital firms. In recent years, the high returns on these investments have helped university endowments.
- Second, in some cases Stanford will participate as an investor in a startup. In these cases, friends of the university who are members of the venture capital community assist the Stanford fund-raising effort by providing a gift to Stanford, which they invest on the university's behalf in selected deals.
- Third, Stanford has recently started taking equity in firms in return for exclusive licenses. Shoch reports that, in the past, the university hesitated to take equity positions because it was thought to be "more pure to take the royalty payment rather than the equity payment." This was "a source of tremendous consternation, because the equity is more valuable [to the university] than the royalty payment, as many firms, particularly in the biotech field, go public and gain commercial value long before they are able to generate a revenue stream."
- Finally, as documented by Lerner (1999), a number of universities have started their own venture capital funds, specifically designed to help push projects beyond the research stage to commercial viability. Thus, if they believe they will be successful in their investments in their own faculty inventions (about which Lerner is quite skeptical), they have substantial assets that could be brought into play. (Reference 15)

C. Small Business Innovation Research Program (SBIR)

SBIR is a highly competitive program that encourages small business to explore their technological potential and provides the incentive to profit from its commercialization. By including qualified small businesses in the nation's Research and Development (R&D) arena, high-tech innovation is stimulated and the United States gains entrepreneurial spirit as it meets its specific research and development needs.

SBIR creates competitive opportunity for Small Business. SBIR targets the entrepreneurial sector because that is where most innovation and innovators thrive. However, the risk and expense of conducting serious R&D efforts are often beyond the means of many small businesses. By reserving a specific percentage of federal R&D funds for small business, SBIR protects the small business and enables it to compete on the same level as larger businesses. SBIR funds the critical startup and development stages and it encourages the commercialization of the technology, product, or service, which, in turn, stimulates the U.S. economy. (Reference 16)

Since its enactment in 1982, as part of the Small Business Innovation Development Act, SBIR has helped thousands of small businesses to compete for federal research and development awards. Their contributions have enhanced the nation's defense, protected our environment, advanced health care, and improved our ability to manage information and manipulate data. (Reference 16)

SBIR Qualifications require Small Businesses to meet certain eligibility criteria to participate in the SBIR program.

- American-owned and independently operated,

- For-profit,
- Principal researcher employed by business, and
- Company size limited to 500 employees. (Reference 16)

The SBIR System requires that each year, ten federal departments and agencies reserve a portion of their R&D funds for award to small business. The total departments are:

- Department of Agriculture
- Department of Commerce
- Department of Defense
- Department of Education
- Department of Energy
- Department of Health and Human Services
- Department of Transportation
- Environmental Protection Agency
- National Aeronautics and Space Administration
- National Science Foundation (Reference 16)

These agencies designate R&D topics and accept proposals. Following submission of proposals, agencies make SBIR awards based on:

- small business qualification,
- degree of innovation,
- technical merit, and
- future market potential.

Small businesses that receive awards or grants then begin a three-phase program.

- Phase I is the startup phase. Awards of up to \$100,000 for approximately 6 months support exploration of the technical merit or feasibility of an idea or technology.
- Phase II awards of up to \$750,000, for as many as 2 years, expand Phase I results. During this time, the R&D work is performed and the developer evaluates commercialization potential. Only Phase I award winners are considered for Phase II.
- Phase III is the period during which Phase II innovation moves from the laboratory into the marketplace. No SBIR funds support this phase. The small business must find funding in the private sector or other non-SBIR federal agency funding. (Reference 16)

The US Small Business Administration plays an important role as the coordinating agency for the SBIR program. It directs the 11 agencies' implementation of SBIR, reviews their progress, and reports annually to Congress on its operation. SBA is also the information link to SBIR. SBA collects solicitation information from all participating agencies and publishes it quarterly in a Pre-Solicitation Announcement (PSA). The PSA is a single source for the topics and anticipated release and closing dates for each agency's solicitations. (Reference 16)

D. Small Business Technology Transfer Program (STTR)

STTR is an important new small business program that expands funding opportunities in the federal innovation research and development arena. Central to the program is expansion of the

public/private sector partnership to include the joint venture opportunities for small business and the nation's premier nonprofit research institutions. STTR's most important role is to foster the innovation necessary to meet the nation's scientific and technological challenges in the 21st century. (Reference 16)

STTR is a highly competitive program that reserves a specific percentage of federal R&D funding for award to small business and nonprofit research institution partners. Small business has long been where innovation and innovators thrive. But the risk and expense of conducting serious R&D efforts can be beyond the means of many small businesses. (Reference 16)

Conversely, nonprofit research laboratories are instrumental in developing high-tech innovations. But frequently, innovation is confined to the theoretical, not the practical. STTR combines the strengths of both entities by introducing entrepreneurial skills to high-tech research efforts. The technologies and products are transferred from the laboratory to the marketplace. The small business profits from the commercialization, which, in turn, stimulates the U.S. economy. (Reference 16)

Small businesses must meet certain eligibility criteria to participate in the STTR Program:

- American-owned and independently operated,
- For-profit,
- Principal researcher need not be employed by small business, and
- Company size limited to 500 employees (No size limit for nonprofit research institution) (Reference 16)

The nonprofit research institution must also meet certain eligibility criteria:

- Located in the US,
- Meet one of three definitions,
- Nonprofit college or university,
- Domestic nonprofit research organization, and
- Federally funded R&D center (FFRDC). (Reference 16)

Each year, five federal departments and agencies are required by STTR to reserve a portion of their R&D funds for award to small business/nonprofit research institution partnerships. They are:

- Department of Defense
- Department of Energy
- Department of Health and Human Services
- National Aeronautics and Space Administration
- National Science Foundation (Reference 16)

Following submission of proposals, agencies make STTR awards based on small business/nonprofit research institution qualification, degree of innovation, and future market potential. Small businesses that receive awards or grants then begin a three-phase program.

- Phase I is the startup phase. Awards of up to \$100,000 for approximately one year fund the exploration of the scientific, technical, and commercial feasibility of an idea or technology.

- Phase II awards of up to \$750,000, for as long as two years, expand Phase I results. During this period, the R&D work is performed and the developer begins to consider commercial potential. Only Phase I award winners are considered for Phase II.
- Phase III is the period during which Phase II innovation moves from the laboratory into the marketplace. No STTR funds support this phase. The small business must find funding in the private sector or other non-STTR federal agency funding. (Reference 16)

The US Small Business Administration plays an important role as the coordinating agency for the STTR program. It helps the five agencies implement STTR, reviews their progress, and reports annually to Congress on its operation. SBA is also the information link to STTR. SBA collects solicitation information from all the participating agencies and publishes it electronically in a Pre-Solicitation. (Reference 16)

E. Advanced Technology Program (ATP)

The Advanced Technology Program (ATP) bridges the gap between the research lab and the market place, stimulating prosperity through innovation. Through partnerships with the private sector, ATP's early stage investment is accelerating the development of innovative technologies that promise significant commercial payoffs and widespread benefits for the nation. As part of the highly regarded National Institute of Standards and Technology, the ATP is changing the way industry approaches R&D, providing a mechanism for industry to extend its technological reach and push out the envelope of what can be attempted. (Reference 18)

The ATP views R&D projects from a broader perspective - its bottom line is how the project can benefit the nation. In sharing the relatively high development risks of technologies that potentially make feasible a broad range of new commercial opportunities, the ATP fosters projects with a high payoff for the nation as a whole - in addition to a direct return to the innovators. The ATP has several critical features that set it apart from other government R&D programs:

- ATP projects focus on the technology needs of American industry, not those of government. Research priorities for the ATP are set by industry, based on their understanding of the marketplace and research opportunities. For-profit companies conceive, propose, co-fund, and execute ATP projects and programs in partnerships with academia, independent research organizations and federal labs.
- The ATP has strict cost-sharing rules. Joint Ventures (two or more companies working together) must pay at least half of the project costs. Large, Fortune-500 companies participating as a single firm must pay at least 60 percent of total project costs. Small and medium-sized companies working on single firm ATP projects must pay a minimum of all indirect costs associated with the project.
- The ATP does not fund product development. Private industry bears the costs of product development, production, marketing, sales and distribution.
- The ATP awards are made strictly on the basis of rigorous peer-reviewed competitions. Selection is based on the innovation, the technical risk, potential economic benefits to the nation and the strength of the commercialization plan of the project.

- The ATP's support does not become a perpetual subsidy or entitlement - each project has goals, specific funding allocations, and completion dates established at the outset. Projects are monitored and can be terminated for cause before completion.
- The ATP partners with companies of all sizes, universities and non-profits, encouraging them to take on greater technical challenges with potentially large benefits that extend well beyond the innovators - challenges they could not or would not do alone.

For smaller, start-up firms, early support from the ATP can spell the difference between success and failure. To date, more than half of the ATP awards have gone to individual small businesses or to joint ventures led by a small business. Large firms can work with the ATP, especially in joint ventures, to develop critical, high-risk technologies that would be difficult for any one company to justify because, for example, the benefits spread across the industry as a whole. (Reference 18)

Universities and non-profit independent research organizations play a significant role as participants in ATP projects. Out of 768 projects selected by the ATP since its inception, well over half of the projects include one or more universities as either subcontractors or joint-venture members. All told, there are more than 170 individual universities and over 30 national laboratories participating in ATP projects. (Reference 18)

ATP awards are selected through open, peer-reviewed competitions. All industries and all fields of science and technology are eligible. Proposals are evaluated by one of several technology-specific boards that are staffed with experts in fields, such as biotechnology, photonics, chemistry, manufacturing, information technology, or materials. All proposals are assured an appropriate, technically competent review even if they involve a broad, multi-disciplinary mix of technologies. (Reference 18)

The ATP accepts proposals only in response to specific, published solicitations. Notices of ATP competitions are published in Commerce Business Daily. You may also request to be placed on a mailing list to receive notification of ATP competitions and other events. (Reference 18)
See also **Appendix H**, Examples of Early Stage Bioscience Financing.

14. Findings.

We conclude that there are many ways in which communities employ both private and public resources to attempt to stimulate and improve the well being of Low Income sections of their community. Although there are several different concepts and varieties of mix and match of funding sources and organizational involvement, the end results of all combined efforts must be to benefit economically disadvantaged people and communities. The primary mission of serving or providing investment capital for, Low Income Communities or Low-Income Persons, must be of the utmost importance.

A Bioscience project in the USF Enterprise Zone and beyond would be well suited for the use of any of the concepts discussed in this paper. Other communities have successfully done such projects.

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Appendix A Listing of CDE's in Central Florida

Certified Community Development Entities -- Alphabetical By State of Florida and City
<http://www.cdfifund.gov/docs/certification/CDEstate.pdf>

Florida total 55

Central Florida Area:

Bartow

Date Certified:

EagleVision Community Development Entity, Inc.
760 5th Avenue, Bartow, FL 33830-3830
(863) 533-0366, Date Certified: 7/2/2004

Gainesville

Neighborhood Housing and Development Corporation
633 N.W. 8th Avenue, Gainesville, FL 32601-2601
(352) 367-9800, Date Certified: 1/2/2002

Orlando

Black Business Investment Fund of Central Florida, Inc.
315 E. Robinson Street Suite 660, Orlando, FL 32801-2801
(407) 649-4780 Date Certified: 6/27/2002

Florida Community Loan Fund, Inc.
3107 Edgewater Drive Suite 2, Orlando, FL 32804-3761
(407) 246-0846 Date Certified: 1/17/2002

Florida Community New Markets Fund, LLC
Full Deliverance Church of Jesus
P O Box 550906, Orlando, FL 32805-0906
(407) 843-9129 Date Certified: 9/26/2003

W E Freeman Outreach Center
Minority Women Business Enterprise Alliance, Inc.
625 East Colonial Drive, Orlando, FL 32803-2803
(407) 428-5860 Date Certified: 7/16/2002

Sarasota

Reliable Business Solutions
3660 N. Washington Blvd
Sarasota, FL 34243-6256
(941) 358-4200x147, Date Certified: 1/13/2004
Suncoast Community Partners LLC

6547 Midnight Pass Road #3
Sarasota, FL 34242-1512
(813) 766-5460 Date Certified: 9/2/2005

St Petersburg

Catholic Charities Community Development
Corporation
Catholic Charities DOSP 1213 16th Street North
St Petersburg, FL 33705-3705
(727) 893-1313 Date Certified: 3/21/2003

Tampa

Corporation to Develop Communities of
Tampa, Inc.
1920 E. Hillsborough Avenue
Tampa, FL 33610-3610
(813) 232-1419, Date Certified: 3/3/2003

Neighborhood Lending Partners of South Florida, Inc.
3615 West Spruce St, Tampa, FL 33607-2504
(813) 879-4525, Date Certified: 9/27/2004

Neighborhood Lending Partners of West Florida, Inc.
3615 West Spruce Street, Tampa, FL 33607-2504
(813) 879-4525, Date Certified: 1/31/2002

Renaissance Finance CDE, LLC
101 E. Kennedy Blvd. Suite 2100
Tampa, FL 33602-5148
(585) 581-6206, Date Certified: 2/21/2003

Renaissance Finance I, LLC
Renaissance Finance II, LLC
Renaissance Finance III, LLC
Renaissance Finance IV, LLC
Renaissance Finance V, LLC
Tampa Bay Black Business Investment Corporation, Inc.
2105 North Nebraska Avenue, Tampa, FL 33602-3602
(813) 274-7923, Date Certified: 5/20/2002

Winter Park

Florida Community Capital Corporation
2715 W. Fairbanks Ave. Suite 200
Winter Park, FL 32789-2789
(407) 898-1661, Date Certified: 7/11/2002

Appendix B

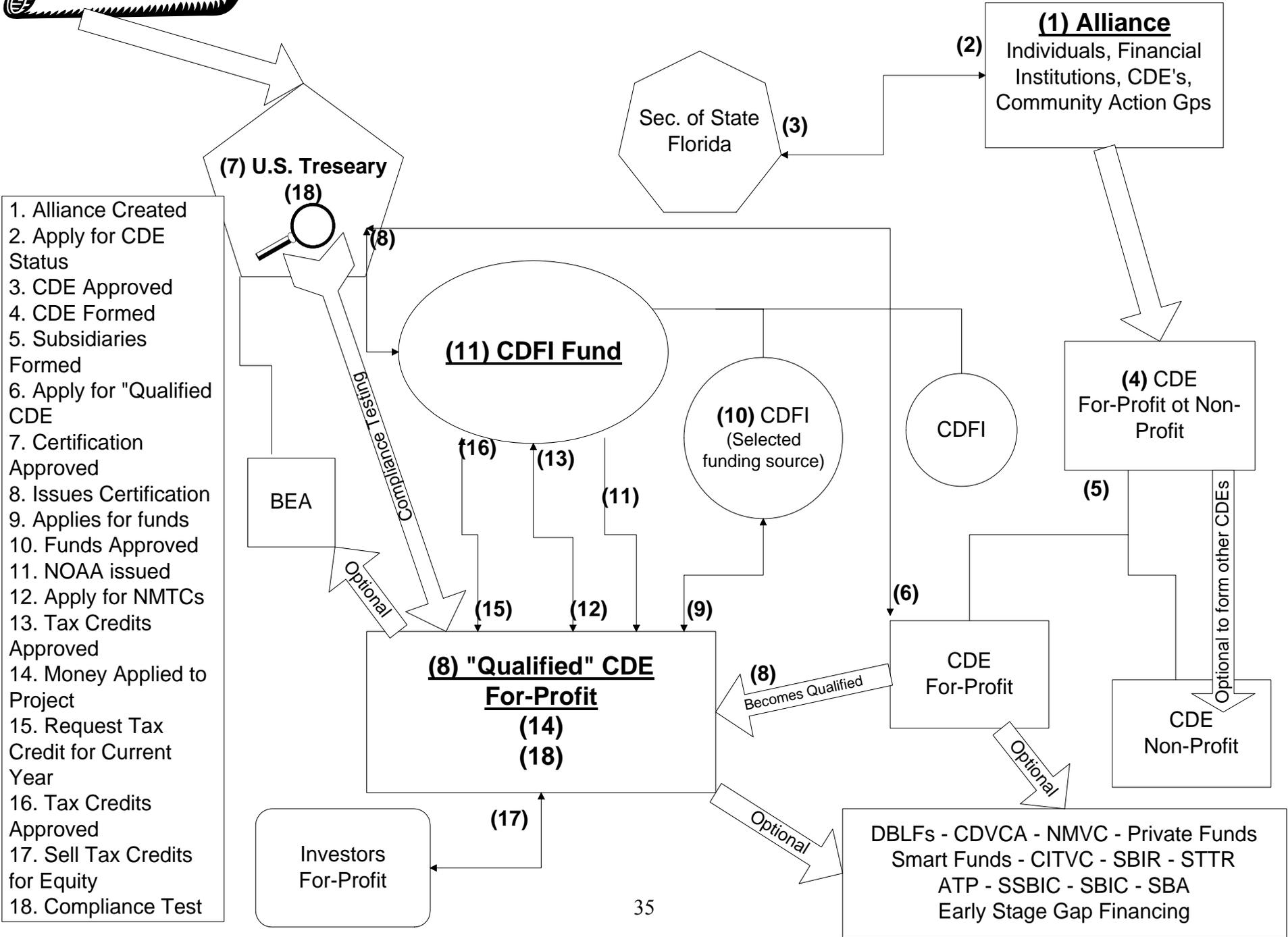
CDR – NMTC Flow Chart

1. Form Alliance to create CDE
2. Alliance applies for CDE status to Sec of State from state of registry
3. Sec of State Approves CDE status
4. Alliance officially formed as a CDE
5. Subsidiaries formed (Optional)
6. CDE applies for “certification” from US Treasury
7. Treasury approves “certification”
8. Treasury issued certification and informs CDFI Fund and CDE. (CDE becomes a “qualified” Q-CDE)
9. Q-CDE applies for funds to CDFI (CDE selects appropriate CDFI based on availability of funds from various CDFIs)
10. Selected CDFI approves and provides notification of funds to Q-CDE
11. CDFI Fund issues Notice of Allocation Availability (NOAA) – (Sends to “qualified” CDEs only – must be for-profit CDE))
12. For-profit Q-CDE applies for NMTCs to CDFI Fund
13. CDFI Fund approves amount of Tax Credit for 7 years to Qualified CDE
14. Q-CDE applies money to designated project as indicated on NMTC application and implement project
15. Q-CDE request the TC for the current tax year from CDFI Fund
16. CDFI Fund approves Tax Credit and informs Q-CDE
17. Sell TC to any for profit Company in return for equity
18. Compliance Test for Primary Mission and Accountability

The following numbered keys map the interrelationships we depict on the CDR-NMTC Flow Chart on the next page.



CDR - NMTC Flow Chart



Appendix C

Key NMTC application scoring factors and selection process

Key scoring factors for each of the 4 parts are as follows:

- Business Strategy:
 - offer products and services that are flexible and non-traditional in form
 - demonstrate a high leverage rate for its borrowers or investees
 - has a track record of providing products and services similar to those it intends to deploy with QEI proceeds
 - has a strong pipeline of proposed projects
 - can demonstrate that its NMTC strategy will add significant value to the proposed activities.
- Community Impact:
 - demonstrates that a high percentage of its QLICs will be made in areas of higher distress
 - articulates credible, detailed, and quantifiable impacts
 - has a track record of achieving such impacts
 - strategy will catalyze other investments into the LICs served
- Capitalization Strategy:
 - has secured QEI commitments from investors or has a strong strategy for doing so
 - can issue QEIs in the near term
 - demonstrates that a majority of the economic benefits of the NMTC will be passed through to borrowers and investees
 - is offering products and services that are substantially different from those of its investors
 - intends to deploy more than 85% of its QEI proceeds into QLICs
- Management Capacity:
 - staff has relevant investment experience, particularly in the LICs that the applicant's strategy targets
 - has a track record of raising capital, particularly from profit- motivated investors
 - has the capacity to manage the addition of NMTC activities into its current portfolio of activities
 - demonstrates meaningful involvement with LIC decision makers and coordination with local community plans (Reference 13)

The Selection Process is divided into 3 parts.

- Peer Review - Fund staff & external reviewers evaluate/score applications and recommend allocation amounts
- Panel Review - Applications that meet minimum scoring thresholds in each of the four major application sections are sent to a Fund panel for consideration
- Selection of Applicants - Selecting Official makes final determinations based upon panel recommendations.
- At the panel phase of review, applicants will be ranked in order of their combined scores in the Business Strategy and Community Impact sections of the application. The Selecting Official will generally award allocations in the order of this ranking, subject to

applicants' meeting all other eligibility requirements, until allocation authority is expended. (Reference 13)

Appendix D

Prior Round CDIF Financial Assistant Awards

Results from rounds 1 – 3:

Round	Applicants	Awards	\$'s Requested	\$'s Awarded	Avg. Award
1	345	66 (19%)	\$25.9 B	\$2.508 B(9.7%)	\$37.9 M
2	271	62 (23%)	\$30.4 B	\$3.5 B (11.5 %)	\$56.5 M
3	208	41 (20%)	\$22.9 B	\$2.0 B (8.7%)	\$49.0 M

Round 3 allocatees by type of entity:

- 11 CDFI's - \$494m
- 6 Banks/Thriffs - \$318m
- 17 Non-Profits - \$891m
- 4 Government Entities -\$160m
- 6 Publicly traded Entities - \$339 (Reference 13)

Round 3 Allocatees Other Facts:

- The 41 allocatees have committed to achieve certain programmatic goals above and beyond what is minimally required by statute and regulation
- They will be required to meet these benchmarks through their allocation agreements with the Fund
- Each allocatee indicated that at least 75% of their loans and investments will have flexible or nontraditional features, and 36 of the 41 allocatees indicated that 100% of their loans and investments will have flexible or non-traditional features
- 35 of the 41 awardees indicate that they will invest at least 95% of NMTC proceeds into low-income communities, an increase over the minimally required 85%
 - This includes 9 organizations that have committed to invest 100% (vs. 85%) of NMTC proceeds in QLICs
 - In real dollars, this means at least \$200 million more in low-income community investments will be made than are minimally required by program regulations. (Reference 13)

Appendix E Additional NMTC compliance criteria

Additional compliance criteria:

- CDE must offer credit to private investors within 5 years
- QEI must stay invested in the CDE for 7 years
- CDE must make QLICs within 12 months of receipt of Investor QEIs (Reference 13)

There are more specific criteria relating to the 4 various types of CDE activity.

1. Investing in QALICB's
 - a. At least 50% of the total gross income is from the active conduct of a qualified business in Low- Income Communities (LICs); and
 - b. At least 40% of the use of tangible property of the business is within LICs; and
 - c. At least 40% of the services performed by the business' employees are performed in LICs; and
 - d. Less than 5% of the average of the aggregate unadjusted bases of the property is attributable to collectibles (e.g., art and antiques), other than those held for sale in the ordinary course of business (e.g., inventory); and 5) Less than 5% of the average of the aggregate unadjusted bases of the property is attributable to nonqualified financial property (e.g., debt instruments with a term in excess of 18 months).
 - e. Ineligible Activities include:
 - i. Residential rental property - Buildings which derive 80% or more of income from residential dwelling units
 - ii. Certain types of businesses:
 1. Golf courses
 2. Race tracks
 3. Gambling facilities
 4. Certain farming businesses
 5. Stores where the principal business is the sale of alcoholic beverages
2. Investing in other CDE's
 - a. All time limits must be met as if the CDE with the allocation directly made the QLICI
 - b. Investments may be made through multiple layers of CDEs (i.e., up to 3 CDEs)
 - c. The last CDE recipient needs to demonstrate that it used those dollars to:
 - i. Make loans to or investments in QALICBs; and/or
 - ii. Provide FCOS to businesses or residents of LICs
3. Purchase Loans from other CDEs - CDEs may purchase loans but not investments from other CDEs if:
 - a. The purchased loans were originated by an entity that was a CDE at the time the loan was
 - b. sold; and
 - c. The loans qualified as QLICs at either the time the loan was:
 - i. originated; or
 - ii. purchased by the allocated CDE

4. Financial Counseling and Other Services
 - a. Possible FCOS activities:
 - i. Business plan development
 - ii. Assistance with business financials
 - iii. Operating assistance to non-profit organizations
 - b. FCOS is “advice provided by the CDE relating to the organization or operation of a trade or business.” (Reference 13)

Appendix F

Benefits of NMVC Company

The benefits of forming an NMVC company are:

- **SBA Financial Assistance.** SBA will supplement an NMVC company's own capital through guarantees of debentures to be issued by the company in a face amount of up to 1.5 times its capital. The debentures will have a term of up to 10 years from the date of draw-down and be issued at a discount. Interest for years 1-5 is paid up front in the form of the discount, interest only is payable for years 6-10, and principal is due at the end of year 10. SBA will arrange "just-in-time" funding for the debentures under procedures similar to those utilized in the SBIC program. The debentures are expected to be priced at a current market rate for comparable U.S. Government Treasury securities plus a premium. The debentures are expected to be pre-payable without penalty after one year. There are no SBA fees associated with the debenture.
 - For example: An NMVC company with \$10 million of contributed capital would be eligible to issue debentures with a face amount of \$15 million. If a 6.49 percent interest rate prevailed when the debentures were issued, the company would receive net proceeds of \$10.62 million for the \$15 million of debentures. No payments would be required for the first 5 years. Commencing with the sixth year, the NMVC company would pay interest on the \$15 million at a 6.49 percent rate compounded semi-annually, and the entire \$15 million of principal would be due at maturity.
- **SBA Operational Assistance Grants.** SBA also will match the resources that the NMVC company has raised for operational assistance (whether in cash or in-kind) with an equivalent grant payable over 4.75 years. The NMVC company must use the grant funds and matching resources to provide marketing, management and other operational assistance to the businesses in which it invests or intends to invest. (Reference 11)

A potential investor can benefit in at least the following four ways through its investment into an NMVC company or SSBIC participating in the NMVC program:

- **Giving back to one's community:** The NMVC program is designed to target the needs of the community in which the NMVC company or SSBIC operates. State and local economic and/or community development entities, local financial institutions (including thrifts), utility companies, business leaders and philanthropists can pool resources into one fund for maximum investing in their local economies. High profile investors also can benefit from the added visibility of their participation in an NMVC fund for marketing and outreach purposes.
- **Tax credits:** Investors may be eligible to receive a New Markets Tax Credit, which the U.S. Department of Treasury will allocate through an annual competitive process. (See [NMTC Issues link](#)) NMVC companies and SSBICs can apply for the tax credit, which they then can pass on to their investors.
- **Community Reinvestment Act (CRA):** Financial institutions that invest in NMVC firms or SSBICs may be eligible for CRA credit. Such institutions would be required to follow rules governing equity investments by Federal financial institutions.
- **A reasonable rate of return:** NMVC companies will be for-profit entities that will seek to provide returns to investors. Although there can be no guarantee of success, producing an

attractive return on investment will be one of the NMVC Company's objectives. The appropriate use of operational assistance grants should enhance these returns. (Reference 11)

Small businesses located in the LI areas can receive:

- No-cost operational assistance, for example: accounting, business, or marketing plans and engineering assistance.
- Long-term risk capital.
- Proactive investor with a stake in growing the business.
- The type, terms and conditions of individual investments will be up to NMVC companies and SSBICs, within guidelines set by the regulations governing the program. SBA will monitor this compliance through examinations and other oversight mechanisms.
(Reference 11)

Appendix G

Angel Investor Information

1. What is an Angel Investor?
2. Angel Investor Networks and Groups
3. Summary of Angel Investor References
4. Examples of Angel Networks and Their Activities

1. What is an Angel Investor?

According to the Wikipedia, a free on-line encyclopedia source, an angel investor (business angel in Europe, or simply angel) is an affluent individual who provides capital for a business start-up, usually in exchange for ownership equity. Unlike venture capitalists, angels typically do not manage the pooled money of others in a professionally-managed fund. However, angel investors often organize themselves into angel networks or angel groups to share research and pool their own investment capital.

Angel capital fills the gap in start-up financing between the "three F"s (friends, family and fools) and venture capital. While it is usually difficult to raise more than \$100,000 - \$200,000 from friends and family, most venture capital funds will not consider investments under \$1 - 2 million. Thus, angel investment is a common second round of financing for high-growth start-ups, and accounts in total for more money invested annually than all venture capital funds combined (\$24 billion vs. \$22 billion in the US in 2004, according the University of New Hampshire's Center for Venture Research).

Angel investments bear extremely high risk, and thus require a very high return on investment. Some angel investors seek a return of at least 10-20 times their original investment within 5 years, through a defined exit strategy, such as plans for an initial public offering or an acquisition. Angel financing can thus be an expensive source of funds. However, cheaper sources of capital, such as bank financing, are usually not available for most early-stage ventures.

Angel investors are often retired business owners or executives, who may be interested in angel investing for other reasons in addition to pure monetary return. These include wanting to keep abreast of current developments in a particular business arena, mentoring another generation of entrepreneurs, and making use of their experience and networks on a less-than-fulltime basis. Thus, in addition to funds, angel investors can often provide valuable management advice and important contacts.

According to the Center for Venture Research, there were 225,000 active angel investors in the U.S. last year. Beginning in the late 1980s, angels started to coalesce into informal groups with the goal of sharing deal flow and due diligence work, and pooling their funds to make larger investments. Angel groups are generally local organizations made up of 10 to 150 accredited investors interested in early-stage investing. In 1996 there were about 10 angel groups in the U.S.; as of 2005 there are over 200. In January, 2004 the not-for-profit Angel Capital Association, and later the Angel Capital Educational Foundation, were formed under the auspices of the Ewing Marion Kauffman Foundation, bringing together over 100 of the most

active angel groups in the United States. The ACA and ACEF have an annual summit meeting each year in a different city, bringing together the leaders of the different groups to exchange best practices.

In 2004, according to the Center for Venture Research, 18.5% of deals that got through the early screens of angel groups and were presented to investors attracted funding, up significantly from 10% in 2003, which is about the historical average. But since this figure discounts the substantial initial screening, the percentage of all companies seeking angel financing that actually receive funding is closer to 0.5%-1% (but still higher than the 0.2%-0.25% of applicants who receive funding from venture capitalists). Approximately 45,000 U.S. companies received angel funding in 2004, and on average, each raised about \$469,000. The lion's share went to high-tech companies, and the single biggest category within high tech was software.

Reference. http://en.wikipedia.org/wiki/Angel_investor

2. Angel Investor Networks and Groups

The Angel Capital Association (ACA) is North America's professional alliance of angel groups. This fast-growing association brings together the 200 angel organizations in the United States and Canada to share best practices, network, and help develop data about the field of angel investing. ACA offers its members a variety of benefits including an annual North American Summit, regional meetings to share more detailed information, access to the top minds in the field, research papers and best practice information, and a members' only section of this site with data on each of the members. A true peer-to-peer organization, ACA is already starting to change the nature of early stage investments for entrepreneurs, angels and venture capitalists. This organization provides thought-provoking discussions and valuable information.
<http://www.angelcapitalassociation.org/>

From The Wall Street Journal Online, "Angel Investors Return, And They Are Serious" By LEE GOMES Staff Reporter of The Wall Street Journal. Angels have been around for years, mostly as loose networks of unaffiliated rich folk. In recent years, though, they have started to form angel groups, which are upscale cousins of the investing clubs that were common among 401(k) wage slaves during the 1990s bull market. These groups have names like "Indiana AngelNet" and "Central New York Angels." Most have Web sites, and a few have full-time staffs.

There is even a new trade group, the Angel Capital Association (ACA), whose goal is to raise the public's awareness of angel investing (angels complain that VCs get all the glory), as well as help improve the investing decisions of the several hundred angel groups that are members. The association had a meeting in San Francisco last week, and the crowded ballrooms at the event were evidence that the reputation of angel investing has recovered from the bruising it received during the dot-com crash, when many angels lost their wings.

The sessions revealed that angels in America have all of the A-to-C diversity of the country's wealthy elite. Many groups are made up of retired executives or professionals, while around coastal tech centers you'll find the occasional younger members who did well with their own companies. Some clubs get their business done at brandy-fueled country-club smokers. Others

stick to fast-paced working breakfasts with nothing on the menu but pancakes and PowerPoints. At a typical meeting, a few carefully screened local entrepreneurs present their business plans, and the group asks questions and then votes on whether to invest. Lots of due diligence gets done before and after the vote. The process is slow, since even the busiest angel groups can't invest in more than one or two start-ups a month. As a basic M.O., angel clubs search out high-growth companies in fields like technology and biotech that might, in a few years, issue stock or get bought. This "return on investment" approach to funding companies is often contrasted with economic-development-style investing, which emphasizes job creation.

The second category deals with restaurants, roofing companies and the like -- stable local employers that put food on the table for many families while lacking spectacular profits or stratospheric growth. Most angel groups won't touch those businesses because they take up too much time and offer too little potential upside for the risk involved. This could become a problem if the local governments that are increasingly working with angels -- one of the trends in evidence at last week's session -- begin to themselves turn away from traditional meat-and-potatoes investing, which often produces the most jobs.

As angel groups and angel networks become more common, will they result in new generations of Googles and Genentechs, or simply lots of me-too junk? No one knows, though already it's apparent that the number of potential angel deals varies from region to region. Marcus Filipovich, of the Pasadena Angels near Los Angeles, says his group received 500 business plans over its Web site, and that while most were tossed out right away, nearly two dozen ended up being worth serious investigation. In Little Rock, though, Jeff Stinson, who runs Fund For Arkansas, which recently collected \$5.3 million from 48 local investors, says he is having trouble finding good places to spend the money. "There is a lack of quality deals," he frets.

Angel investors say a rule of thumb in their world is that an angel's first deal is always a bad one. Investors suspend tough business judgment in their eagerness to get their oars in the cash flow. Which raises the surprising fact that no one really knows how well, or how badly, angel investors as a whole actually do. The field has its anecdotal examples of home runs, like the 1998 check for \$200,000 that Sun Microsystems co-founder Andy Bechtolsheim wrote to the co-founders of Google, which became worth nearly \$300 million. Such tales have the effect of evening news reports about lottery winners, and keep angels in the game even without hard aggregate data. In fact, the angel association is now attempting to answer the question of cumulative angel profits (or losses) once and for all.

Reference. <http://www.startupjournal.com/financing/trends/20050412-gomes.html>
<http://www.angelcapitalassociation.org>

3. Summary of Angel Investor References

The groups listed just below are a few of the general groups that invest nationally. The list below contain some that are interested in particular industries, some are more general; some focus on startups, some want companies to have some kind of track record; some will accept only online submission, some want a business plan. Also watch carefully: some angel investment networks charge a fee for reviewing and/or presenting your business plan.

- Active Capital (formerly ACE-NET) <http://activecapital.org/>

- AngelDeals.com <http://www.angeldeals.com/>
- Atlantic Venture Networking Group - Halifax, Nova Scotia <http://www.avng.org/>
- Capital Connection.com <http://www.capital-connection.com/>
- Gathering of Angels <http://www.gatheringofangels.com/>
- Idealflow Angel Fund LLC <http://www.idealflowfund.com/>
- Investors Circle - Brookline, MA
- Irish Angels - Notre Dame, IN
- National Association of Seed & Venture Funds <http://www.nasvf.org/>
- New Product Development Consortium <http://www.npdinc.com/>
- The Entree Network <http://www.entreeventurenetwork.com/>
- The Tribe of Angels
- US Angel Investors
- US Visionaries - Newport Beach, CA

4. Examples of Angel Networks and Their Activities

Gathering of Angels (GOA)

A recap from the Gathering of Angels (GOA) 2005 hosted by Tarby Bryant, Chairman of the Anasazi Capital Corporation. Tarby Bryant has hosted 35 GOA meetings in different cities across the USA. Ninety (90) different entrepreneurial companies presented and 17 companies got some level of capital funding from GOA attendees and subsequent referrals. The average capital funding from a GOA presentation was \$175,000 with Angel investments ranging from 50k to \$1.5 million in 2005.

The Gathering of Angels is a monthly meeting of private, high net-worth investors, also referred to as "Angels," venture capitalists and merchant bankers. The event is hosted by Tarby Bryant, Chairman of the Anasazi Capital Corporation. The mission of the Gathering of Angels is to provide first stage "seed level and angel capital" financing to startup and early stage firms.

GOA is an Angel Forum where 6 companies present with PowerPoint for 20 min each followed by 2-5 min of Q&A. Accredited Angel Investors, VCs and Investment Bankers attend our events complementary. Each GOA presenter pays \$2500 presentation fee with no % of capital raised. Included in the GOA presentation fee is 3 hours of virtual coaching, mentoring and consulting from GOA CEO Tarby Bryant to insure that your presentation is clear, concise and defensible. We also provide coaching on capital & corporate structure, valuation, cost of funds, exit strategies, mgt. Team and other presentational enhancements to your PowerPoint efforts. The fee is \$2000 for each additional GOA city. We helped 14 companies find capital from this GOA process in 2003 and 24 capital fundings in 2004 ranging from \$50,000 - \$1.5 million.

Reference: Phone 505-982-3050, <http://www.gatheringofangels.com/>

New Product Development Consortium (NPDC)

The New Product Development Consortium (NPDC) is a membership organization consisting of over 100 prominent current and former CEOs, executives, financiers, and professionals located in the United States and abroad. (The NPDC website is owned and operated by Spencer Clarke LLC (Spencer Clarke)). Spencer Clarke now handles all the new NPDC investment banking activities. You do not have to be a member to submit ideas to us. The following provides an overview of our structure. It is followed by the names and biographical descriptions of our Board of Directors.

The business model is to bring together in a selective membership environment high net worth individuals with an interest in early stage business situations. This network seeks to build and nurture successful businesses whose value can sharply appreciate in a few years. All investments are independently made by members based on the due diligence provided by Spencer Clarke; NPDC never invests its members' funds and does not operate a blind pool. Ideas may be submitted to the NPDC website by non-members. In fact, most ideas are submitted by non-members.

NPDC STATISTICS:

- Membership consists principally of CEOs, financiers, and business professionals having broad market access and familiarity with a wide spectrum of products, services and technologies. The members, numbering over 100, are primarily located throughout the United States, but also in the United Kingdom, Europe and Japan.
- NPDC's rough estimate of the assets of the entire membership are \$2 billion, with \$100 million available for high risk investments.
- 90% participation rate (idea interests, idea submissions, other membership activities); 40% actually invested in NPDC identified situations.

REPRESENTATIVE PROJECTS; FIRST ROUND FUNDING COMPLETED

- Land Mine Detection Systems, Inc. Washington, D.C. Commercialization of non-linear acoustic technology for the detection of land mines.
- Commerce Thru Digital Technology, Inc. Orlando, Florida. Provider of e-commerce platforms to small and medium businesses through Chambers of Commerce.
- Electronic Sewing Machine, Inc. Philadelphia, Pennsylvania. Developer and marketer of a proprietary technology which reduces the moving parts in industrial sewing machines.
- Ensolve Biosystems. Raleigh, North Carolina. Developer and marketer of proprietary system that renders the bilge water of ships safe for discharge into the open seas, lakes, and rivers. (NPDC was one of several funding organizations).
 - HydroGlobe
 - Athena
 - Trivia Shott-out
 - Biomec

REPRESENTATIVE PENDING PROJECTS - NPDC

- Stem cell blood storage and therapy company
- Biological cold storage for vaccines and blood
- Synthetic latex, non-allergenic, products
- Device for alleviating incontinence

- Ubiquitous sound sensing technology
- Moving boxes and related packing supplies for self-movers
- Micro-fuel cell to power cellular phones, laptops, etc.
- Improved internet router system
- Personal training and health maintenance internet company
- Automobile anti-theft device
- Nanomanufacturing technology
- Telemedicine
- Internet system for the buying/selling of industrial equipment
- Ergonomic beverage bottle especially for infants/children

REPRESENTATIVE PENDING PROJECTS - Spencer Clarke

- Alternative energy company
- Medical Test products
- Snack manufacturer
- Specialty restaurant
- Security Identification manufacturer

Reference. <http://www.npdcinc.com/>

The Entree Network

Entree as an angel executive network has performed due diligence reviews to varying degrees involving many of the 26,000 inquiries received in 11 years and we have selected or been selected to incubate and /or provide services to many of them. 95% of those have received either funding following preparation, term sheet offers, business plan, angel investors, partnering arrangements, competitive analysis, acquisition suitors, management, board members, new clients and/or modeling services. 100% of our deal flow comes from our associates, the Internet and by word of mouth reference from associates, angel relationships, angel investors and clients.

The Entrée Network provides networking methods, networks, access to partners , targeting, presentation, negotiation, retention of equity, valuation enhancement strategies, packaging the venture, sales and revenue ramp-up models, deal structuring, equity options, venture capital tie-ins, investment banking and how to approach them, common concerns, red flag issues, plan execution content, strategic partnering, executive search and rounding out the management team, how to position the venture when founders have zero resources, board importance and how to source and attract members, plan packaging and modeling, the importance of PR, traditional and technology venture positioning, weakness & strength reviews, identifying the obstacles, how to get in front of someone real, executive summary quick reviews and comments.

The Entree Network frequently provides angel investors, partner angel investors, and other angel investors in the United States and internationally to clients. We often solicit outside angel investors to join us in supporting a technology or business services company. We know many angel investors and our associates are active in numerous angel investing organizations.

Professional venture capital firms invest about \$12 billion a year in helping start and develop businesses. Angel investors invest \$60 billion a year. However, angel investors throughout the

United States provide more than money. They bring experience, enthusiasm, knowledge and contacts to the table.

The angel investors Entree works with frequently are successful entrepreneurs who have "been there, done that" and who want to pursue another success but do so at arm's length. As such, they can be very valuable to an aspiring young company. Other angel investors include lawyers, accountants, and other accredited investors eager to participate in higher-risk, higher-return investment opportunities.

Entrée develops and nurtures companies that are shaping the future by allowing them to tap our network of retired executives and angel investors. With an emphasis on early-stage investments, the network has assisted companies since 1994 and has served numerous innovative and market-leading enterprises.

Reference. <http://www.entreeventurenetwork.com/>

BioBusiness Alliance of Minnesota™

ST. LOUIS PARK, Minn. (July 18, 2005)—The BioBusiness Alliance of Minnesota™, the business development organization for enriching Minnesota's future through the biosciences, today announced that it has chosen ANGLE Technology Group to conduct a comprehensive assessment of the state's biobusiness capabilities. The assessment will begin immediately and be completed in the fourth quarter 2005.

ANGLE Technology Group was chosen from a group of more than seven firms responding to a rigorous RFP process that included 15 national and international firms. ANGLE was chosen for their vast experience both in conducting assessments in the U.S. and internationally, and for their consulting expertise in the technology industry.

The BioBusiness Alliance of Minnesota™ statewide assessment effort is overseen by a committee that includes members from industry, government and academia, and is co-chaired by Professor Kelvin W. Willoughby, PhD, University of Minnesota Honeywell/W.R. Sweatt Chair in the Management of Technology, and director, Management of Technology Program; and Vince Ruane, retired vice president, 3M, and board director, Capital City Bioscience Corporation. The state assessment is the first step in a long-term planning process that will result in a 20-year strategic plan.

The outcome of the statewide assessment will be a comprehensive census and database of biobusiness enterprises in the entire state, regardless of the size of the business. Biobusiness is defined as economic activity devoted to the development and commercialization of bioscience or bioscience-related technologies, products or services. The assessment will provide a baseline evaluation of biobusiness in the state. This information will be useful to benchmark Minnesota against other countries and states. The outcome of the process will identify the state's strengths and development needs, and provide recommendations to target specific areas of biobusiness in which Minnesota can compete as a global leader. These recommendations will reflect the

convergence of technologies, products, and markets that exist in the state, and identify Minnesota's opportunity areas for growth.

According to Willoughby, "Unlike other studies that use standard industry categories from publicly available databases, in this project we're digging down deep into the basic fields of technology and science that underpin biobusiness in Minnesota.

"ANGLE Technology Group has demonstrated the understanding and the ability to identify and map the information in a way that's useful to decision makers," added Willoughby. "They speak the language of biobusiness, which is extremely valuable in gathering the data. In the end, Minnesota will have an assessment and recommendations that are unique to the state."

"The assessment process and the outcomes it will generate will confirm our capabilities and uncover the emerging technology-related opportunities we have in the human health and energy-agricultural/industrial sectors," said Ruane. "Our ultimate goal is to identify specific and distinctive biobusiness categories where Minnesota can compete as one of three, or perhaps one of five global centers of excellence, as opposed to being one of 100 centers. This is a crucial step in making Minnesota highly competitive worldwide."

According to Dale Wahlstrom, chair of the BioBusiness Alliance of Minnesota™, "We are very excited that ANGLE Technology Group was awarded this project. They understand our mission and our commitment to action and job creation."

Wahlstrom added, "When it comes right down to it, the ultimate benefits of the BioBusiness Alliance of Minnesota™ are to provide clarity to help our research institutions to target research, our legislators to target investments and policy needs, our educators to develop curriculum, our investment community to grow their confidence in Minnesota's business development capability, and our businesses to grow and create jobs for the citizens of the state. We begin with accurately assessing the capabilities of biobusiness in Minnesota."

"We are very pleased that ANGLE has been selected to deliver this innovative, industry-driven assessment of Minnesota's biobusiness capabilities," said Dr. Gary P. Evans, CEO of ANGLE Technology Group's U.S. Operations. "We look forward to working with the BioBusiness Alliance team to take the first step in the long-term planning and development of a biobusiness strategy for Minnesota."

Founded in 1994, ANGLE Technology is an international venture management and consulting company. The ANGLE Team is comprised of professionals who combine backgrounds in science and engineering, corporate finance, and economic development. ANGLE Technology combines experience in the academic, private and public sectors. This includes extensive expertise in the commercialization of technology, new company formation, investment and corporate finance, research park and incubator development and management, and delivery of economic development programs. ANGLE established a Minnesota office in August 2004 in recognition of the significant business potential it believes exists in this state.

The BioBusiness Alliance of Minnesota™ has applied for 501 (c) (3) not-for-profit organizational status.

Reference. BioBusiness Alliance of Minnesota™ “Chooses Angle Technology Group to Conduct State Assessment”, Contact Jeremy Lenz, project executive at 952/542-3077, extension 8. Posted on 07/18/2005.

<http://biobusinessalliance.org/news-articles/2005-0718angle>

Minnesota Partnership

MINNEAPOLIS/ROCHESTER, Minn. (Aug. 9, 2005)—The Minnesota Partnership for Biotechnology and Medical Genomics kicked off construction on a new research facility, which will be built on top of the existing Mayo Clinic Vincent A. Stabile Building, at a roof raising event held in Rochester today. The research facility will significantly enhance Minnesota’s competitive position in the biosciences race, building on the strong commitment of the University of Minnesota and Mayo Clinic

“The strength of this facility extends beyond bricks and mortar, this new research facility will allow research teams from Mayo Clinic and the University of Minnesota to collaborate even more closely to build on the significant progress that’s already been made by the Partnership and advance medical science,” said Hugh Smith, M.D., Chair, Mayo Clinic Rochester Board of Governors.

Funding for the new research facility was included in the state bonding bill passed by the legislature earlier this year. Governor Tim Pawlenty and a bipartisan group of legislative leaders participated in the roof raising.

The Partnership also announced an agreement with the BioBusiness Alliance of Minnesota™, the business development organization for enriching Minnesota’s future through the biosciences, to work collaboratively to raise awareness throughout Minnesota for the bioscience industry and investments made in biosciences. The effort will provide information to opinion leaders and economic development officials, especially those in Greater Minnesota, about the potential to transform research discovery into economic development. The outreach effort, scheduled to begin this fall, will also provide hands-on tools to help spark bioscience business development in local communities.

“This is a critical investment for Minnesota, and we are focused on growing and enriching economic development opportunities in the area of biobusiness,” said Dale Wahlstrom, Chair, BioBusiness Alliance of Minnesota™. “By working together, the BioBusiness Alliance and the Partnership can provide spark for future biobusiness development in regions across Minnesota, as we compete to become a global leader in agriculture, bioprocessing, medical technology, and health sciences.”

“While other states are struggling to turn their research investments into reality, Minnesota has been investing in biosciences for many years, funding actual research,” said Frank B. Cerra,

M.D., Senior Vice President for Health Sciences, University of Minnesota. “Working with the BioBusiness Alliance, we are confident that research we begin through the Partnership will result in jobs, as well as health improvements for Minnesotans.”

The Partnership and the BioBusiness Alliance will help to demonstrate the importance of the bioscience industry to Minnesota as a whole, as well as enhance resources already in place. Both organizations are committed to implementing specific action items that dramatically impact the state in terms of jobs, new sources of revenue, and overall health improvements, while helping to advance bioscience discoveries.

“The Partnership is committed to giving back to the state of Minnesota by converting Partnership research discoveries into economic development opportunities for the state,” said Dr. Smith.

Reference. “Minnesota Partnership Celebrates Construction Of New Research Facility Announces Plans for Collaboration with the BioBusiness Alliance of Minnesota™”, <http://biobusinessalliance.org/news-articles/2005-0809partnership> Posted on 08/09/2005

BioEnterprise Corp. and JumpStart Inc.

Northeast Ohio nonprofits BioEnterprise Corp. and JumpStart Inc. are flying south in search of investment dollars, and they’re bringing some local startups along for the ride. The two nonprofits, along with two Northeast Ohio entrepreneurs, have helped organize a group of 25 angel investors who will meet in Naples, Fla., to hear presentations from four Cleveland-area companies in search of venture capital. It is no accident that they picked Naples, which in some circles is known as Cleveland South.

Angels are wealthy individuals who invest in young companies, and most of the angels who are scheduled to meet today, March 27, at the Ritz-Carlton in Naples are former full-time residents of Northeast Ohio who now live at least part of the year in southwest Florida.

“The idea is consistent with our general approach of following the money and bringing it back to the region,” said Baiju Shah, president of BioEnterprise, a Cleveland group that assists biotech companies. The Naples angel group is expected to meet at least three times per year, Mr. Shah said.

The investors are mainly entrepreneurs, business people and health care professionals who’ve lived in Northeast Ohio and want to contribute to economic development in the region, said Bill Sanford, one of the event’s co-hosts and former CEO of Mentor-based Steris Corp., a maker of medical sterilization products. Mr. Sanford is a former chairman of BioEnterprise who still sits on its board.

“The common thread is that (the angels) are all successful, they all have affection for Northeast Ohio and they all spend a lot of time in Florida,” said Mr. Sanford, who lives year-round in the Naples area.

In addition, the Alumni Association of Case Western Reserve University furnished the event's organizers with a list of alumni living in Florida who might be interested in participating, said Daniel Clancy, the alumni group's interim director.

Co-hosting the event with Mr. Sanford is Stu Giller, chairman of Summa Enterprise Group, the entrepreneurial arm of Akron's Summa Health System.

The four companies scheduled to present at today's meeting are Charitee LLC, a Solon company that sells hole-in-one monitoring systems to golf courses; Embrace Pet Insurance of Cleveland Heights; medical device company Interventional Imaging Inc. of Cleveland; and electronic health records company ProPractica Inc. of Shaker Heights.

Nonprofit venture investor Jumpstart already has committed up to \$300,000 to Charitee and up to \$335,000 to Embrace.

"Our hope is that each of the companies will connect with several angel investors who will invest funds in their enterprises," Mr. Shah said.

Reference. Crain's Cleveland Business – on the web Nonprofits angle to find Florida angels

BioEnterprise, JumpStart hope Sunshine State group will back fledgling Ohio

Businesses, By BRANDON GLENN, 6:00 AM, March 27, 2006

<http://www.bioenterprise.com/news/bioe2006/craainsnaplesmarch2006.pdf#search=%22angle%20investors%20Florida%22>

Cleveland, BioEnterprise (June 2, 2005)

Business formation, recruitment, and acceleration initiative designed to grow health care companies and commercialize bioscience technologies.

- Five-year partnership (2002) among Case Western Reserve University, Cleveland Clinic Foundation, University Hospitals Health System and Summa Health System,
- Received a grant from a collaboration of nearly 70 philanthropic foundations
- Provides Companies:
 - Experienced bioscience management guidance.
 - Privileged relationships with world-class research and clinical institutions.
 - Access to bioscience venture capital and private equity firms
 - Business development and alliance support for strategic partnerships.
 - Network of regional business capabilities
- Results since July 2002, :
 - 45 companies created, recruited, and accelerated
 - \$200 million in new funding
 - \$50 million in revenues
 - 150 technology transfer

Reference: Denise Richardson, Manager, Business Development, BioEnterprise Corporation
11000 Cedar Avenue, Suite 100, Cleveland,
OH 44106. submissions@bioenterprise.com

Oxford Bioscience Partners (OBP)

This is a Life Science venture capital firm that provides equity financing and management assistance to advanced-stage start-ups and later-stage commercially oriented organizations. Its Objective is to generate long-term capital gains for both investors and entrepreneurs. This fund invests in businesses capable of improving the diagnosis and treatment of disease, as well as companies with technologies that accelerate drug discovery and development.

Reference: <http://www.oxbio.com/index.html>

For General Information: **Kathleen Moeckel**, Office Manager, 222 Berkeley St. Suite 1650, Boston, MA 02116, (617)357-7474, Fax: (617)357-7476, kmoeckel@oxbio.com

Bioscience Innovation Funds

This fund was founded in 2003 to help university investigators translate promising early-stage discoveries into marketable technologies. The Oregon Health & Science University (OHSU) awarded it's first funds March 3, 2005. The project involves:

- Helping to fund OHSU researchers bridge the "valley of death" funding gap
- Includes five investigators that shared a total of more than \$400,000
- The goal of the fund is to help scientists overcome the financing gap between discovery and initial commercial seed funding.

Reference: <http://www.ohsu.edu/ohsuedu/newspub/releases/030305biosciencehtml.cfm>, <http://www.ohsu.edu/>, Arundee Pradhan, director of OHSU Technology and Research Collaboration, 3181 S.W. Sam Jackson Park Rd., Portland, Oregon 97239-3098, (503) 494-8311

Pittsburg, Life Sciences Greenhouse – LifeSPAN

Innovation Works (IW) and Pittsburgh Life Sciences Greenhouse (PLSG) forms LifeSPAN Investor Forum. It is a network for angel investors supporting early-stage life sciences. PLSG invests in and supports growth in the areas of:

- bioinformatics;
- bionanotechnology;
- diagnostics;
- medical devices;
- medical robotics;
- therapeutics;

The projects objective includes:

- Employment creation,
- community development, and
- elimination of urban blight

The program:

- Provides Capital
- Involves People
- Makes Space

- Maintains “Leading Edge Research”
- Establishes Industry Connectivity

Reference: <http://www.pittsburghlifesciences.com/content.aspx?id=76041a52-ecb6-44c0-b3e5-06ad1aecbf62> EWS RELEASE, Contact: Terri Glueck, Innovation Works, 412-681-1520 x 435, Charlotte Rapkin, Pittsburgh Life Sciences Greenhouse, 412-201-7483,

Rocky Hill, Connecticut Innovations (CI) - Biotech Seed Fund

The fund helps to catalyze the development of biotech companies through the crucial early stages.

- \$5 Million for growth of Biotech Companies, (September 25, 2001)
- State’s leading investor in high technology
- Created to accelerate the growth of early-stage biotech enterprises in Connecticut
- Makes equity investments in emerging Connecticut technology companies
- Provides essential, non-financial support to entrepreneurs
- Conducts initiatives that address specific needs of technology sector.
- Support includes:
 - BioScience Facilities Fund - finance the expansion or creation of laboratory space;
 - Yankee Ingenuity Technology Competition - offers awards to Connecticut universities that collaborate with Connecticut businesses on applied research and development projects leading to marketable products and processes. Provides transitional laboratory space available to biotech start-ups.
 - Eli Whitney Fund - both equity capital and guidance for high-technology companies

Reference:

<http://www.ctinnovations.com/news/13.php>, Connecticut Innovations President and Executive Director, Victor R. Budnick. Connecticut Innovations 200 Corporate Place, 3rd. Floor, Rocky Hill, CT 06067, Phone: 860-563-5851 Fax: 860-563-4877

Appendix H

Examples of Early Stage Bio-Science Financing

Virginia's Center for Innovative Technology (CIT), CIT CAPITAL ACCESS PROGRAM, CIT CAPITAL ACCESS PROGRAM

CIT's Federal Funding Assistance Program identifies and accelerates opportunities for Virginia's small technology businesses to obtain SBIR, STTR and ATP awards and other government contracts. Each year, CIT works with hundreds of regional technology companies to assist them in identifying federal R&D funding opportunities appropriate to their growth objectives. Through a series of educational events, proposal development support offerings, and hands-on consultative activities, CIT enhances their chances of winning federal grants and commercializing resulting technologies. (Reference 17)

The objective of CIT's Growth Acceleration Program is to help close Virginia's "funding gap" for pre-seed and seed stage technology companies. CIT identifies and makes funds available to early-stage technology companies with a high-potential for commercialization, rapid growth and downstream private equity financing. Through close consultation with CIT's Entrepreneurship and Investment Services Team, GAP portfolio companies will be positioned to achieve pre-determined performance milestones required to secure subsequent angel investment and Series A venture capital financing. (www.cit.org/gap-04.asp) (Reference 17)

Innovation Works Launch LifeSPAN Investor Forum, New Network to Boost Investment in the Region's Life Sciences, Companies on the Cusp of Growth, Addresses Unique Challenges Pittsburgh, PA, March 23, 2004 – Innovation Works (IW) and the Pittsburgh Life Sciences Greenhouse (PLSG)

The PLSG and IW created LifeSPAN Investor Forum out of a need to help more of the region's early-stage life sciences companies overcome a common and highly critical funding gap that often occurs as they progress from the research phase to commercialization. Investments from LifeSPAN Investor Forum participants will help bridge this funding gap. In addition to arranging periodic company presentations to investors, LifeSPAN Investor Forum will create virtual access (www.pghlifespan.com) to those presentations through a special-access Internet component of the program. (Reference 19)

The formation of LifeSPAN Investor Forum responds to several national trends in early-stage enterprise investing.

- First, is the significant increase in the number of networks for private investors to share expertise, access to companies and due diligence activities.
- Second, investment in life sciences companies is on the rise. In 1993, private investment in biotech firms was approximately \$3 billion nationwide. In 2003, that number had grown to approximately \$17 billion. Despite this growth, the need for more angel investment in early-stage companies of all types persists. Last year, venture capitalists invested only 19 percent of their dollars into seed- and early-stage businesses, following a decade-long trend toward financing expansion and late-stage deals.

- In addition to helping bridge a gap in early-stage financing, LifeSPAN Investor Forum is intended to help bridge a knowledge gap among existing investors. (Reference19)

According to Florri Mendelson, President & CEO of Innovation Works, “Our success with SPAN shows there is a healthy appetite for investing in local start-ups across all industry sectors. But since people tend to invest in what they already know and understand, LifeSPAN Investor Forum should help reach a targeted group of individuals whose background and interests are specifically in the life sciences, thereby capitalizing on our region’s growing capacity in the life sciences arena as well as potential investors’ expertise.” (Reference19)

According to Dr. Doros Platika, President and Chief Executive Officer of the PLSG. “LifeSPAN Investor Forum represents what can be accomplished when organizations like the PLSG and IW come together to create a win-win opportunity for the region.

- The investors win by having a network that will facilitate investments in the life sciences;
- the companies benefit by having informed investors who fill the capital gap in company formation and growth; and
- the region benefits through the creation of high quality companies and jobs that create products which save lives and improve the quality of life throughout the community and world.” (Reference 19)

Connecticut Innovations Forms Biotech Seed Fund, \$5 Million Committed for Growth of Biotech Companies, ROCKY HILL, CONN., September 25, 2001

“The fund will help to catalyze the development of biotech companies through the crucial early stages,” said Connecticut Innovations President and Executive Director Victor R. Budnick. “New enterprises on the frontiers of science will have the opportunity to demonstrate to future investors the strength and promise of their concepts.” (Reference 20)

The Biotech Seed Fund adds to the continuum of support available for biotech companies. This support includes the BioScience Facilities Fund, which helps biotechnology companies finance the expansion or creation of laboratory space; the Yankee Ingenuity Technology Competition, which offers awards to Connecticut universities that collaborate with Connecticut businesses on applied research and development projects leading to marketable products and processes; transitional laboratory space available to biotech start-ups; and the Eli Whitney Fund, under which CI provides both equity capital and guidance for high-technology companies. (Reference 20)