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New Pennsylvania Venture Capital Investment Program

Program Guidelines

February 2005

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Commonwealth of Pennsylvania

Tom Wolf, Governor

Department of Community & Economic Development



pennsylvania
DEPARTMENT OF COMMUNITY
& ECONOMIC DEVELOPMENT

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Section I – General

A. Introduction

The Commonwealth Financing Authority (CFA), through the New Pennsylvania Venture Capital Investment Program, shall provide loans to venture capital partnerships for investment in Pennsylvania-related companies. The nature of the investments by the venture capital partnerships shall be equity or convertible debt.

These guidelines outline the nature and focus of the CFA New Pennsylvania Venture Capital Investment Program, as well as the applicable process and procedures in the administration of this program. The CFA Board reserves the right to review the guidelines and make additions, deletions or changes as it deems appropriate.

The CFA New Pennsylvania Venture Capital Investment Program is a Commonwealth of Pennsylvania initiative intended to address the financing needs of Pennsylvania businesses by providing \$60M in loans to venture capital partnerships, leveraged by another \$180M of private equity, to total \$240M for Pennsylvania-related companies. In addition, in order to increase the amount of capital available in traditionally underserved areas, the Commonwealth has instructed that 50% of the funds be made available to those venture capital partnerships with primary offices staffed with at least one full-time senior-level partner located in Pennsylvania counties which are outside the Philadelphia Metropolitan Statistical Area and which have a population of one million people or less. All loans are made pursuant to the statutory authority of the Commonwealth Financing Authority.

The CFA New Pennsylvania Venture Capital Investment Program's flexible financing is designed to meet the needs of technology-oriented businesses and are adaptable to the newly developed business structures evolving in the New PA technology economy. The CFA New Pennsylvania Venture Capital Investment Program holds the promise of more firmly establishing a technology based economy within Pennsylvania, allowing Pennsylvania to compete in the global marketplace.

B. Program Eligibility

1. At least 50% of the funds made available for the program shall be used to make loans to venture capital partnerships which have primary offices staffed with at least one senior level partner located in counties which are outside the Philadelphia Metropolitan Statistical Area and which have a population of 1,000,000 or less, based on the 2000 decennial census of the Bureau of the Census.
2. At least 50% of the funds made available for the program shall be used to make loans for investments in Pennsylvania-related companies located in Pennsylvania counties which are outside the Philadelphia Metropolitan Statistical Area and which have a population of 1,000,000 or less, based on the 2000 decennial census of the Bureau of the Census.
3. Listed below are certain requirements that will apply to every venture capital partnership that receives funding from this program.
 - a. The ultimate beneficiary of the financing must be a Pennsylvania related company which is defined as an entity with operations located in this Commonwealth or an entity willing to locate significant business operations in this Commonwealth. For purposes of this program significant business operations is defined as having a simple majority of its workforce employed in the Commonwealth.

- b. There must be a financial return mechanism to the CFA New Pennsylvania Venture Capital Investment Program. The rate of return need not be high or substantial in every financial transaction approved, but the goal of the CFA Board is to achieve an adequate rate of return while balancing the goal of economic development within the Commonwealth.
 - c. The fund applicant must be willing to provide all pertinent information requested so that a complete due diligence review of the proposed investment in the venture capital partnership can be conducted.
4. Venture capital partnership has or will open an office in Pennsylvania, staffed with at least one senior level partner and will maintain such office for the duration of the loan. In approving the application, the Board shall consider whether an applicant has had an office in this Commonwealth for at least the 12 months immediately preceding the date of the applicant's application.
5. All loans awarded to the venture capital partnerships and the matching nonpublic equity shall be invested in Pennsylvania-related companies.
6. The CFA investment should not exceed 20% of the total investment made into a venture capital partnership.

C. Types of Financing Available

1. The actual method of financing to be offered by the CFA New Pennsylvania Venture Capital Investment Program is through a loan product to either the general partnership of the fund, to the management company of the fund, or to a separate entity established and under the control of the management company or general partnership of the fund. A venture capital partnership is an entity whose purpose is to make investments in companies and is formed as a limited partnership, limited liability company or comparable investment entity.

Section II – The Application Process

A. General

1. A venture capital partnership seeking to make an investment in Pennsylvania-related companies may submit an application for a loan to the Authority by utilizing the DCED Single Application form.
2. Applicants ready to apply for funding must utilize the DCED Single Application.
 - a. The Single Application can be printed and/or completed online by accessing: www.inventPA.com. Type "Single Application" into the search mechanism.
 - b. Copies of the Single Application kit may be obtained by contacting the DCED Customer Service Center at 1-800-379-7448 or 717-787-3405 or e-mailing: ra-dcedcs@state.pa.us.
 - c. Applications may be filed at any time during the fiscal year, subject to availability of funds, in accordance with the process outlined herein and subject to CFA Board approval. However, dates for presentations and application deadlines will be determined by the Board and posted on www.inventPA.com.

d. Applications should be submitted to:

Department of Community and Economic Development
Customer Service Center
Commonwealth Keystone Building
400 North Street, 4th Floor
Harrisburg, PA 17120-0225
(800) 379-7448

e. Correspondence should be sent to:

PA Department of Community and Economic Development
Commonwealth Financing Authority – New PA Venture Capital Program
Commonwealth Keystone Building
400 North Street, 4th Floor
Harrisburg, PA 17120-0225
(717) 787-4147

B. Fund Investment Application

1. Applicants wishing to access the New Pennsylvania Venture Capital Investment Program must submit the following supplemental information (see attached questionnaire in Appendix A for additional detail).

a. Business Plan including:

- Applicant's name.
- Address of the applicant and a list of all offices of the applicant located in the Commonwealth.
- The applicant's business plan, which may be a Private Placement Memorandum (PPM) pursuant to 17 CFR, SS 230.501 through 230.508 (Relating to Reg. D – Rules governing the limited offer and sale of securities without registration under the Securities Act of 1933).
- A history of the applicant's development, operations, accomplishments and historical investment returns including past performance of principals and partners.
- Specific amount requested from the CFA.

b. Financials/Information:

- Ownership status, e.g., locally owned, subsidiary of larger corporation, and the home office address of the parent corporation (if applicable).
- At risk position of principles.
- Remuneration, distribution and participation in project for principals and partners.
- Conflict of interest and risk factors.
- Term sheet commitments or letters of commitment from third party investment sources for this project currently and in the future.
- List investment sources approached, but not participating in this project.
- An aggregate IRR on all investments, including both realized and unrealized gains.

c. Marketing/Opportunity:

- General size of present active marketing areas.
- Investing strategy and intended industry sectors including stage of investment.

- How sufficient qualified deal flow will be generated.
- What are the screening criteria?
- What has past experience been in performing due diligence and what is the process going to be?

d. Experience/Management:

- Management team, board members and qualifications.
- Qualifications, Network and Access to the expertise of experienced industry advisors to project management team.
- How will oversight of portfolio companies be handled?
- To what extent will management be involved in investments?
- A description of the applicant's current and proposed relationship with organizations in this Commonwealth that foster economic development.

e. Potential Impact:

- Priority will be given to projects that demonstrate significant PA job creation, PA business impact and PA citizen impact. Please provide both the initial and three year projection for each one of these measures including any past relationships with organizations within the Commonwealth that have fostered economic development.

f. Any other information required by the Authority.

C. Approval Process

1. Staff will review the application. Staff will work with the applicant to obtain a full understanding of the venture capital partnership. Staff will utilize the matrix that is approved by the CFA Board to determine the rating of the venture capital partnership. Staff will review and analyze all necessary documentation to determine, among other things:
 - a. If the applicant has invested in Pennsylvania-related companies in the past.
 - b. The applicant has demonstrated strong relationships with organizations in this Commonwealth which foster economic development.
 - c. That the applicant has demonstrated a satisfactory investment performance record.
 - d. The anticipated economic development return to the region or the Commonwealth.
 - e. The CFA Board will consider whether the applicant has demonstrated that it can and will raise and invest in Pennsylvania-related companies at least \$3 of nonpublic equity for every \$1 of loan funds received by the applicant under this program.
 - f. That the applicant has or will open an office in Pennsylvania staffed with at least one senior level partner and will maintain such office for the duration of the loan.
 - g. That the applicant complied with all other criteria established by the Authority.
2. Venture capital partnerships that complete a satisfactory staff review will be submitted to the CFA Board for review and consideration. Approval of a project for financing will require CFA Board approval.
3. Applications for financing may be rejected or deferred for any one or more of the following reasons:

- a. The applicant fails or refuses to provide pertinent information regarding the fund which is deemed essential to adequately perform a due diligence review.
- b. The proposed financial return is non-existent or negligible, or a return cannot be readily defined and/or calculated.
- c. There is inadequate participation by other investors in the fund or the level of participating investment committed to the fund is insufficient to close the fund.
- d. The anticipated economic development return to the region or the Commonwealth is non-existent or negligible, or the level of proposed return is not commensurate with the amount of CFA financing being requested.
- e. The fund is not based in Pennsylvania, or does not maintain a substantive presence within Pennsylvania.
- f. There are insufficient funds available to the CFA to make an investment in the fund.
- g. The fund does not meet the minimum scoring requirement in the matrix that is approved by the CFA Board.
- h. Any other criteria adopted by the CFA pursuant to an appropriate resolution.

D. Post Approval Process

1. Upon being satisfied that all requirements have been met, the Board may approve the application and, if approved, the Authority shall award a loan. The Board shall establish the term of repayment of principal and payment of interest and other return to the Authority and all other terms and conditions of the loan consistent with the guidelines.
2. No investment will be closed until the following have been satisfactorily resolved:
 - a. The applicant must certify that it shall not discriminate against any employee or against any applicant for employment because of race, religion, color, handicap, national origin, age or sex.
 - b. The applicant and its principals must be current in payment of all state and local taxes unless they have entered into a workout agreement satisfactory to the respective taxing authority and are in full compliance with the terms thereof.
3. Following disbursement of funds, staff will monitor the activities of the applicant to insure that the conditions of the Authority investment are being observed and met. Staff will promptly advise the CFA Board of any substantive failure in performance by the applicant and any failure or delay in making any required payment. The Authority shall have full authority to engage in any and all activities required in order to protect and preserve its investments, including but not limited to appropriate legal action when required, and the CFA Board may empower staff to initiate action in this regard.
4. The applicant shall maintain full and accurate records with respect to the fund and the fund management, and shall ensure adequate control over the records of all related parties to the fund. Staff shall have access to such records and be able to inspect all project work and all relevant records at reasonable times and places. Upon request, the applicant must furnish all data, reports, contracts, documents and other information relevant to the project, as may be requested in the investment documents.
5. If a project is approved and it is subsequently determined that the application contained material misrepresentations, or funds were used for ineligible activities or activities not permitted under the terms of the approved financing or financing documents, the applicant will be in default and the Authority will demand immediate repayment of any and all funds advanced in connection with the fund. In addition, the matter may be referred to the appropriate authorities for criminal investigation.

E. Reporting Requirements

1. All reporting is due via e-mail within 15 business days of the end of the quarter.
2. All recipients must provide quarterly reports quantifying the progress toward accomplishing approved deliverables.
3. Aggregated IRR for the quarter reporting and period to date are required.
4. Audited annual financials are required.
5. Following investment by the venture capital partnership in a Pennsylvania business, the partnership will be required to monitor and report quarterly on a cumulative basis the following impact measures:
 - a. Citizens Impacted - An action that compels an action/effect that can be quantified and verified.
 - b. Business Impacted – An action that improves or enhances the operational process of another PA based company in a quantified and verifiable manner, including the current employment for portfolio companies.
 - c. Jobs Created – The direct creation of new jobs in PA for your operation. This does not include the transfer of jobs within PA.

Appendix A – Fund Questionnaire

I. Proposed Fund

- A. Briefly describe the fund that you are proposing. Include a description of the fund's purpose, investment focus, geographic focus, and any limitations imposed on the investment process, i.e., SBIC limitations.
- B. Describe the investment philosophy and strategy you plan to employ. Has this changed from your previous funds?
- C. State the size, life and active investment period of the fund you are proposing. How does this differ from your previous funds?
- D. Describe the management fee, offsets of other compensation against management fees, proposed allocation and distribution structure, co-investment opportunities, the structure and role of the Advisory Board in developing policies; and any other important terms and conditions related to this fund. Your answer should include, but not be limited to, any proposed provisions for:
 1. No-fault divorce
 2. Any clawback
 3. Joint and several liability
 4. Conflicts of interest
 5. Restrictions on raising multiple funds
- E. List any special advisors, consultants, business brokers, etc., you plan to use for this fund.
- F. Break out intended stage of investment and industry focus by percentage for Pennsylvania investments.

II. Previous/Current Funds

- A. Describe your previous and current fund experience using the format provided below:

Funds	Fund	Fund	Fund
Final Closing			
Total committed capital			
Total invested at cost			
Realized Proceeds			
Cash-on-cash multiple			
Performance ending most recent quarter stated as net IRR to LPs			
Total Number of companies financed (including write-offs)			
Average size of investment			
Number of investment professionals			
IRR on PA Portfolio			

B. Please provide a portfolio company detail spreadsheet for each fund, as outlined below:

- Company Name:
- Industry:
- Lead General Partner:
- Location:
- Date of Initial Investment:
- Initial Investment Cost:
- Total Investment Cost:
- Net Realized Proceeds:
- Value in Portfolio:
- Return Multiple (NAV+Dist/paid-in):
- IRR:
- Initial Percentage Owned:
- Current Percentage Owned:
- Number of Financing Rounds:
- Initial Financing Stage:
- GP Role (Lead, Co-lead, Follow):
- Board Seats:
- Lead Investor:
- Co-Investors:
- Deal Source:
- Date of Exit:
- Exit Method:
- Ticker Symbol (if public):

C. Please list all office locations current and planned.

III. Management

- A. List personnel responsible for private equity investment activity including the day-to-day operations of the partnership. Include backgrounds and prior expertise in venture capital/alternative investments. Please provide total number of current and planned employees.
- B. Describe how carried interest is apportioned among the general partners using the format provided below. List previous funds in addition to your proposed fund.

Individual	Fund X-III	Fund X-II	Fund X-I

C. Describe the vesting schedule for General partner interests in the proposed fund in addition to your previous funds as outlined in III-B above.

D. List the portfolio involvement of your investment professionals as below.

Partner/Associate	Capital Managed	# of Investments	# of Board Seats

E. Please provide GP investment in past, current and proposed fund.

F. What controls do you have in place to ensure that funding to portfolio companies are properly routed and effectively utilized?

G. Describe the ownership of the firm.

H. Information Regarding Other Business Interests

(This form must be completed by each principal of the general partner, and should list all material business endeavors or investments that could impact the amount of time available for the fund being proposed.)

1. Please list all business endeavors or investments in which you are actively involved, including percentage of time dedicated to each endeavor.

2. Please list all corporate or non-profit directorships that you currently hold.

I. Litigation Questionnaire

(This form must be completed by each principal of the general partner. All "Yes" answers must be accompanied by a detailed explanation of the situation or circumstances causing the "Yes" answer.)

Note: Please provide details of any "Yes" answers on a separate sheet.

1. Are you now, or have you ever been, a named defendant in any criminal proceeding or in any civil legal action involving a claim of greater than \$250,000?

☐ Yes ☐ No

2. Has any organization of which you have been a member of senior management, or in which you have had a meaningful ownership interest (greater than 5%), ever been a named defendant in any criminal proceeding or in any civil legal action involving a claim of greater than \$500,000?

☐ Yes ☐ No

3. Have you or any organization in which you have had a meaningful ownership interest (greater than 5%), or of which you are, or were, a member of senior management, ever filed voluntarily, or had filed against you involuntarily, a bankruptcy petition?

☐ Yes ☐ No

4. Has any licensor, franchisor, or master distributor ever initiated proceedings to terminate a business relationship with you or any organization of which you have ever been a member of senior management?

☐ Yes ☐ No

5. Has any business partner, joint venture, or subcontractor ever sought injunctive relief or arbitration or otherwise commenced legal proceedings to terminate any business or contractual relationship?

☐ Yes ☐ No

6. Have you or any organization in which you have had a meaningful ownership interest (greater than 5%), or of which you are, or were, a member of senior management, (i) been the subject of any federal, state, or other regulatory investigation or disciplinary hearing or proceeding, (ii) agreed to any consent order or decree in connection with any alleged violation of federal or state laws or regulations, or (iii) pleaded no contest in any legal or administrative proceeding?

☐ Yes ☐ No

IV. Performance

- A. What performance benchmarks would you use to evaluate your prior fund performance and what would this evaluation indicate as of the most recent Quarter?
- B. List all investments which have been liquidated to date. Please discuss exit strategies which you have employed in past investments and indicate if these strategies are still valid.
- C. Have any of your partnership interests traded as secondary interests? If so, please explain.
- D. What is the company valuation methodology that you have employed in past funds? If this is different from your proposed fund, please elaborate.
- E. What lessons do you feel that you have learned, both good and bad, as a result of your experiences with prior funds?

V. Decision Process

- A. Describe your firm's decision process as it relates to new company investments and follow-on financings.
- B. What investment criteria do you employ?
- C. Who has the authority to terminate/approve investments? Please explain. How are failing companies dealt with? How is a decision reached to shut down a company? Give examples with prior failed or difficult investments.
- D. What controls are utilized to ensure that all investment decisions are consistent with firm/fund guidelines?
- E. How do you determine/deal with conflict of interests in the management of (a) funds and (b) portfolio companies?

VI. Dealflow

- A. Describe your current and planned deal flow sources. Specifically, list economic development entities, universities and venture capital firms and provide a description of the relationship.
- B. Provide number of deals reviewed versus invested in the prior year. Split out Pennsylvania based deals.
- C. Number of PA based companies in the current pipeline.
- D. Please describe any partnership agreements with VC's or corporations.
- E. Please provide a copy of your most recent deal log for the most recent quarter.

VII. Reporting

- A. What type of reports do you prepare for limited partners? Do financial statements follow GAAP accounting standards?
- B. Who are your auditors? How are your auditors selected and how often do you change auditing firms? Have your auditors requested changes to any of your company valuations? Please explain.

VIII. Limited Partner Relationships

- A. Provide a list of current LP's and indicate whether they are public or private.
- B. In the proposed fund how many of the current LP's are re-investing?

IV. References (please provide telephone numbers)

- A. Provide a reference listing of CEOs of all portfolio investment companies in your prior funds.
- B. Provide a reference listing of all mezzanine/subordinated lenders who have provided capital in your previous fund investments.
- C. Provide a reference listing of all senior debt lenders who have provided capital in your previous fund investments.
- D. Provide a reference listing of all venture capitalists/private equity investors who have provided capital in your previous fund investments.
- E. Provide a reference listing of individuals who have an understanding of your firm's investment expertise.
- F. Provide a reference listing of one CEO who was turned down, one CEO who has left a company, and one CEO whom you recruited for a portfolio company.
- G. Please list the firm's partner departures within the last five years, citing reasons for each departure and contacts for departed partners.
- H. Provide a description of any litigation pending against any general partner.
- I. Are you registered with the SEC?