NEW MARKETS VENTURE CAPITAL (NMVC) PROGRAM

U.S. Small Business Administration (SBA)

Investment Division

Office of New Markets Venture Capital

Typical NMVC Company

- 10-year limited partnership (“LP”)
- Funded with LP commitments
- Years 1-5: makes approximately 20 investments
- Years 6-10: creates value and liquidity
- Management shares in profits
- Capital requirements:
  - Minimum $5 million of private capital from non-Federal sources
  - Minimum $1.5 million of matching grant resources from non-SBA sources

Unique Features of an NMVC Company

- “Double bottom line” of both financial return to investors and improvement of LI areas
- Provides intensive operational assistance to small business directly or through third parties, e.g. accountants
- Fund manager controls investment funds and grant money. If done well, this benefits both small business and fund investors

Advantages to Investors

- Low cost 1:1 leverage on equity from SBA-guaranteed debentures
- Fund manager directs no cost grant funds for 60% more resources to enhance investments ($3.0 MM /$5.0MM equity)
- Potential New Markets Tax Credit up to 39% over 7 years
- CRA credit for financial institutions

Advantages to Portfolio Companies

- Long term risk capital
- Proactive investor
- No cost operational assistance

NMVC Program Funding

- Fiscal Year 2001 funding by Congress:
  - $150 million for debenture guarantees ($100 million discounted amount)
  - $30 million for operational assistance grants
- Total public/private resources:
  - $200 million for investing
  - $60 million for operational assistance

Terms of Operational Assistance Grants

- Dollar-for-dollar match required (up to 50% in-kind contribution permitted)
- Disbursed over 4.5 years
- Must not be used for general and administrative expenses, including overhead

SBA Oversight

- Annual compliance examinations
- Grant funding subject to audit
- Annual financial reports and additional reports are required
- Cross default between grant award and debenture guaranty

NMVC Investing

- At least 80% of the businesses in which the NMVC Company makes investments must:
  - Be “smaller enterprises”
  - Receive “equity capital investments”
  - Have their “principal office” located in a LI area
  - 80% of dollars invested must also meet criteria

Smaller Enterprises

- Businesses that, together with their affiliates:
  - Have $6 million maximum net worth and average after-tax income not exceeding $2 million for the preceding 2 years, or
  - Meet SBA's size standard based on revenue or employment criteria for industry

Equity Capital Investments

- Common or preferred stock
- Limited partnership interests
- Options, warrants, or similar equity instruments
- Subordinated debt with equity features as long as debt is not amortized and provides for interest payments contingent upon and limited to the extent of earnings
- Majority or 100% ownership permitted

Low-Income (LI) Geographic Areas

- Historically Underutilized Business (HUB) Zones
- Rural and Urban Enterprise Zones and Empowerment Communities
- Any census tract or equivalent county division:
  - That has a poverty rate of at least 20%, or
  - That qualifies for the Low Income Housing Tax Credit, or
  - That is a non-metropolitan area and has a median household income of no more than 80% of the statewide median household income

NMVC Program Timeline

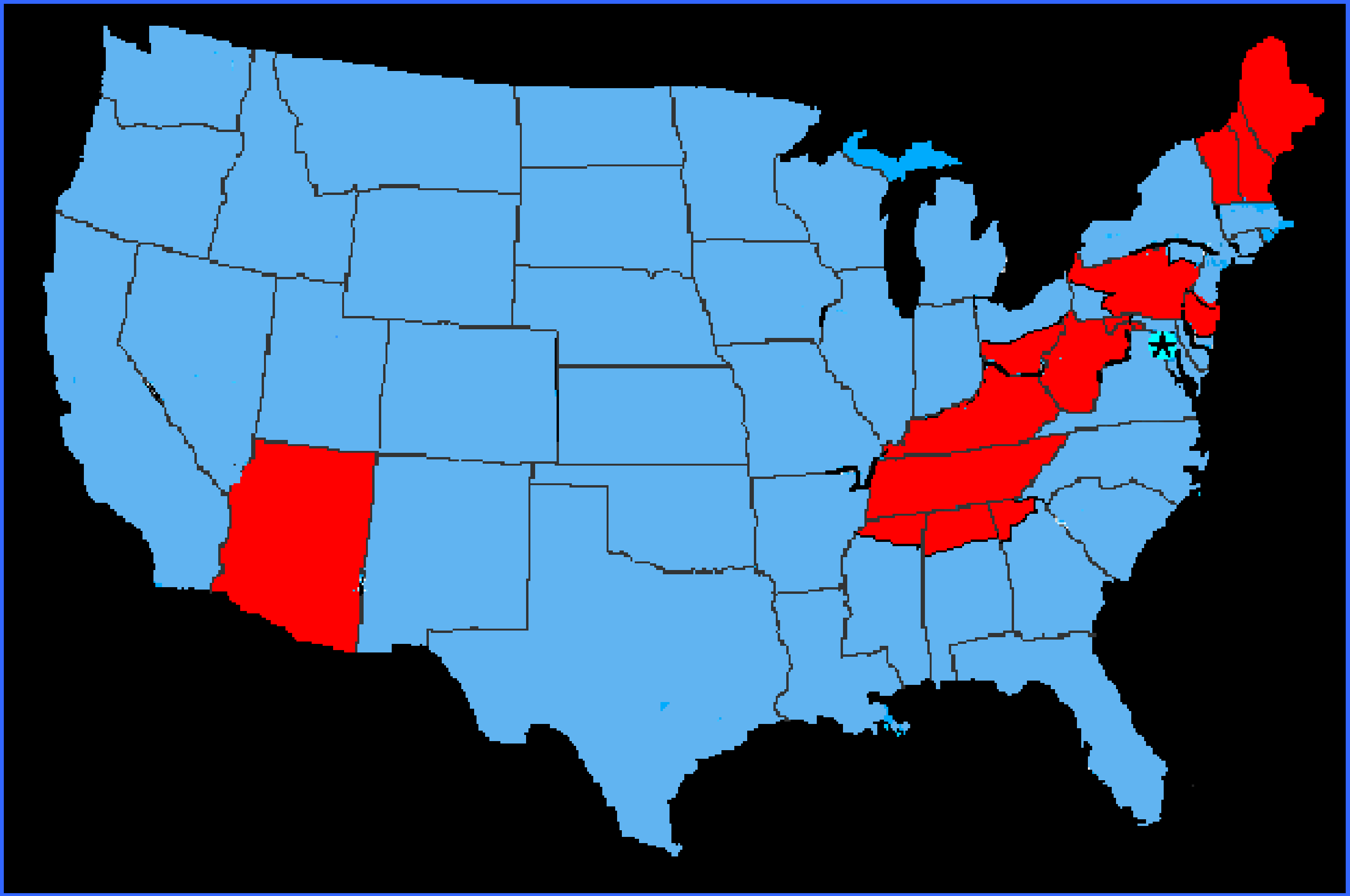
- 2001- First round: SBA conditionally approved seven out of 23 applicants which represents roughly half of $180 million program funding
- 2002- Seven conditionally approved must raise private matching resources and close by 12/31/02
- Second round: SBA currently revising regulations and application and is planning to announce in fourth quarter, 2002.
- Second round winners will have 18 months to raise private matching resources

Proposed Investment Areas of Conditionally Approved NMVC Companies

- **Adena Ventures:** 29 counties in Southeastern Ohio, 18 counties in Northeastern Kentucky, entire state of West Virginia, 3 counties in Western Maryland.
- **CEI Community Ventures Fund:** Eligible census tracts throughout Maine, New Hampshire and Vermont, with the majority of tracts being in the Northern regions of those states
- **Dingman New Markets Growth Fund**: The District of Columbia, 3 Maryland counties in the DC metro area; and Baltimore City, Maryland
- **Murex Investments I:** 15 counties in Eastern Pennsylvania, 8 counties in Southern New Jersey, 2 counties in Northern Delaware
- **Penn Venture Partners:** 34 counties in Central Pennsylvania
- **Southern Appalachian Fund:** 111 of 122 counties in Kentucky, 88 of 95 counties in Tennessee, 34 counties in Northern Alabama, 21 counties in Northern Georgia, 19 counties in Northern Mississippi
- **Southwest Development Fund:** The entire state of Arizona, with particular focus on the Phoenix and Tucson areas

Conditionally Approved NMVC Companies

Proposed Investment Areas



More Information

- SBA's web site:

  http://www.sba.gov/inv

- e-mail:

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- Austin J. Belton, Director, NMVC Program

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NMTC ~ NMVCC Inconsistencies Under Current Regulations

- LI Areas - NMTC definition does not include HUB or Rural Empowerment Zones or Enterprise Communities available to NMVCCs
- Substantially All Safe Harbor test of NMTC - precludes use by venture funds including NMVCCs because of 15% limit on fund overhead and reserves
- Holding Period- NMTC requirement of 7-year holding periods (with grace periods for reinvestment) versus no holding period requirement in NMVC program
- Qualified Business- NMTC tests of gross income <u>and</u> property <u>and</u> services in LI area for 7- year holding period is more stringent than "principal office" test for NMVCCs
- Control - NMTC test of no more than 33% ownership during the 7-year period degree of control contrasts with no restraints on ownership by NMVCCs