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SEED CAPITAL INVESTMENT PROGRAM RULES

1.0 GENERAL INFORMATION

The Arkansas Science & Technology Authority was established by Act 859 of 1983 as amended by Act 409 of 1985. The purpose of this Authority is to provide leadership in, and to give direction to, a broad spectrum of programs and services designed to gain for this State and its people, the benefits and opportunities to be realized through advanced science and technology.

1.1 PROGRAM NAME

These rules govern the Arkansas Science & Technology Authority's Seed Capital Investment Program.

1.2 PURPOSE

The Seed Capital Investment Program is designed to foster the formation and development of innovative, technology-based business enterprises that will stimulate the economy of Arkansas through increased employment and leveraging of private investment.

1.3 AUTHORIZATION

The Seed Capital Investment Program is authorized by Sections 12, 13, and 14 of Act 859 of 1983 as amended by Act 409 of 1985, the same being Arkansas Statutes 6-1612, 6-1613, and 6-1614. The power to establish rules governing this program is granted by Section 4 of Act 859 of 1983 as amended by Act 409 of 1985, the same being Arkansas Statute 6-1604.

2.0 GENERAL PROGRAM DESCRIPTION

The Seed Capital Investment Program will assist in the initial capitalization of Arkansas-based enterprises that are involved with a project that is scientific or technological in nature. The Authority's participation will be in the form of a purchase of the qualified securities of an

enterprise, and will be available only to enterprises that can not secure sufficient capital through traditional capital sources.

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The Authority expects to recoup its investments through return of capital and appreciation on its investments. The State and its citizens will benefit from these investments through increased employment, tax revenues, and the benefits and opportunities realized through advanced science and technology.

2.1 TYPE OF INVESTMENTS

The investments of the Seed Capital Investment Program may be in the form of debt financing, equity financing, a royalty participation agreement, or a combination of such financing arrangements. In any event, the securities offered by the enterprise for purchase by the Authority must be qualified securities.

2.2 DEFINITIONS

For the purposes of the Seed Capital Investment Program, the following words and phrases have these definitions:

- 2.2.1 "Enterprise" shall mean a business with its principal place of business in Arkansas and which or proposes to be engaged in this State in manufacturing, research and development, or the provision of services involving a significant amount of technology.
- 2.2.2 "Initial Capitalization" shall mean financing that is provided for the development, refinement, and commercialization of a product or process and other working capital needs.
- 2.2.3 "Investment Fund" shall mean the fund created by Section 122 of Act 859 of 1983, as amended by Act 409 of 1985.
- 2.2.4 "Qualified Security" shall mean any note, stock, treasury stock bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, preorganization certificate or subscription, transferable share, investment contract, certificate of deposit for a security, certificate of interest or participation in a patent or application therefore, or in royalty or other payments under such a patent or application, or, in general, any interest or instrument commonly known as a "security" or any certificate for, receipt for, guarantee of, or option, warrant, or right to subscribe to or purchase any of the foregoing, provided that in the valuation of "qualified security," no value shall be placed on in-kind services.
- 2.2.5 "Scientific and Technological Project" shall mean a project undertaken in Arkansas by an enterprise, which project the Board shall have determined promotes the purposes of Act 859 of 1983 as amended and otherwise benefits the State and its citizens.

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3.0 ELIGIBILITY

Eligible applicants will be those that satisfy the following eligibility requirements.

3.1 CRITERIA

The eligibility requirements include:

- 3.1.1 The enterprises' principal place of business is located in the State of Arkansas.
- 3.1.2 The enterprise must possess a fully developed, well defined business plan.
- 3.1.3 The project of the enterprise must be scientific and/or technological in nature and promote the purpose of the Authority by providing benefits of science and technology to the State and its citizens.
- 3.1.4 The Authority will not consider requests from an enterprise for seed capital investment funds for an amount in excess of \$500,000.
- 3.1.5 Minority business enterprises are eligible for application to the Seed Capital Investment Program. The terms and conditions of such assistance will be consistent with the provisions of Act 859 of 1983
- 3.1.6 Due to conflict of interest, the Authority will not invest in any qualified security of any enterprise owned, wholly or partially, directly or indirectly, by any director or officer of the Authority or any enterprise that employs a director of the Authority.

4.0 APPLICATION PROCESS

The Authority requests that all potential applicants complete a preliminary application on a form specified by and available from the Authority. An interview with the applicant and/or a site visit of the enterprise may be conducted as part of the preliminary review process by the Authority.

4.1 PRELIMINARY APPLICATION FORM

The purpose of the preapplication is to permit a preliminary review of the project and the enterprise by the Authority's staff, and for the potential applicant, will eliminate unnecessary work if the project or enterprise is determined not to be eligible.

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The preliminary application form shall include:

- 4.1.1 Name, address, and phone number of the enterprise;
- 4.1.2 Contact person's name and position at the enterprise;
- 4.1.3 A list of key personnel, including senior technical staff (attach resumes);
- 4.1.4 Amount and source of matching funds;
- 4.1.5 Amount, use, and timing of funds requested by the enterprise from the Authority;
- 4.1.6 Brief description of business of enterprise;
- 4.1.7 Brief description of project of enterprise and the technology involved;
- 4.1.8 Statements explaining the stage of development of both the company and the project;
- 4.1.9 Statement of economic impact, including the number, location, and type of jobs to be created;
- 4.1.10 Identification of your markets and projected percentage of market share;
- 4.1.11 Other information as needed by the Board of Directors of the Authority.
- 4.1.12 Additional information may be included with the preliminary application, but it should not be confidential or proprietary in nature.

4.2 INVITATION FOR A FULL APPLICATION

The enterprise may be invited to submit a full and detailed application for a seed capital investment. The invitation will be based on a careful review of the preliminary application to assure that the project meets all eligibility criteria.

4.3 FULL APPLICATION FORM

The applicant will be supplied with an application form which will include the following items.

- 4.3.1 Name, address, and phone number of enterprise;
- 4.3.2 Name and position of contact person at the enterprise;

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4.3.3 An intelligent, thorough, and precise business plan which includes:

4.3.3.1 A summary of the history and business of the enterprise;

4.3.3.2 A description of the background of the enterprise;

4.3.3.3 A detailed description of marketing plan, management, operations plan, financial statements and projections, product and technology involved, and other information as required by the Board of the Authority;

4.3.3.4 A detailed description of the amount, timing, and use of funds requested from the Authority;

4.3.3.5 A statement describing the amount and sources of the matching funds;

4.3.3.6 A detailed description of potential economic impact including the number, location, and type of jobs created, dollar cost per job, areas affected, and in what manner;

4.3.3.7 A signed statement from the applicants indicating they understand the Authority's position on the Freedom of Information Act and how it relates to confidential and proprietary information; and

4.3.3.8 Other information as needed by the Board of Directors of the Authority.

5.0 EVALUATION

The applications will be evaluated on the basis of merit. All applications will be reviewed by Authority staff for completeness. Only complete applications will be evaluated. Such proposals shall be thoroughly investigated by Authority staff, and may receive a preliminary analysis by a Board-appointed expert advisory committee, to assure that all eligibility criteria are met. The findings from the staff investigation and advisory committee analysis will be used in the evaluation by the Investment Committee of the Board of Directors. Final investment decisions will be made by the Board of Directors of the Arkansas Science & Technology Authority.

The Authority will attempt to evaluate and respond to each applicant enterprise within 30 days of receipt of the preliminary application.

Every effort will be made by the Authority to insure a decision by the Board within 90 days of receipt of the full application from the enterprise. An additional four to six weeks should be allowed for closing.

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5.1 CRITERIA

Applications will be investigated, reviewed, and evaluated according to the following criteria.

- 5.1.1 Investment proceeds will only be used to cover the initial capitalization needs of the enterprise;
- 5.1.2 Evidence showing that management of the enterprise has the prior experience to operate the business successfully, thus ensuring the enterprise has a reasonable chance of success;
- 5.1.3 The enterprise must be able to demonstrate that it has been unable to secure from traditional capital sources sufficient capital on terms that would enhance the success of the enterprise;
- 5.1.4 The enterprise, which the Authority's investment would finance, has the reasonable potential to create a substantial amount of primary employment within the State;
- 5.1.5 The entrepreneur and other founders of the enterprise have already made or are contractually committed to make a substantial financial and time commitment to the enterprise;
- 5.1.6 The securities offered by the enterprise to the Authority for purchase are qualified securities;
- 5.1.7 There must be evidence showing a reasonable possibility that the Authority will recoup at least its initial investment;
- 5.1.8 Binding commitments have been made to the Authority by the enterprise for adequate reporting of financial data to the Authority. This shall include a requirement for an annual or other periodic audit of the books of the enterprise, and for such control on the part of the Authority as the Board shall consider prudent over the management of the enterprise, including, in the discretion of the Board and without limitation, right and access to financial and other records of the enterprise;
- 5.1.9 Because the Authority seeks to leverage private investment, preference will be given to those applicants proving a minimum 3:1 dollar match. Although documentation of financial commitment from sources of matching funds is not expected at the time the applicant initially begins the application process, it is a requirement at the closing of a seed capital investment.

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5.1.10 Other criteria as determined by the Board of Directors of the Authority.

5.2 EXPERT ADVISORY

The Expert Advisory Committee shall include a director of the Authority and individuals whose expertise in specific areas will aid in the evaluation of each potential investment. Members of the expert advisory committee will be required to sign a nondisclosure statement in order to protect the applicant from unfair competition. This review and evaluation will be based on the following criteria.

5.2.1 The management's qualifications and their ability to control growth and operate successfully;

5.2.2 The technology's viability and commercial applicability;

5.2.3 The financial condition of the enterprise;

5.2.4 The legal aspects of the enterprise;

5.2.5 The feasibility of the enterprise's marketing plan;

5.2.6 The feasibility of the enterprise's operating plan;

5.2.7 The overall soundness of the business plan of the enterprise; and

5.2.8 Other information as needed by the Board of Directors of the Authority.

5.3 INVESTMENT COMMITTEE

The Investment Committee of the Board will evaluate the inherent risk and the potential of the applicant enterprise by evaluating the following areas.

5.3.1 The enterprise and its entry into the industry;

5.3.2 The uniqueness of the technology and the product;

5.3.3 The product's market acceptance;

5.3.4 The management of the enterprise; and

5.2.5 Other areas as determined by the Board of Directors of the Authority.

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5.4 BOARD OF DIRECTORS

The final decision to invest funds in the applicant enterprise will be made by the Board of Directors of the Authority. The decision will be based on information derived from the evaluation process and the Board's interpretation of the accumulated information.

6.0 INVESTMENT AWARD

Investment funds will be disbursed by the Authority, only after the board adopts a resolution authorizing investment in the enterprise. The resolution shall be based on the terms and conditions negotiated between the Authority and the enterprise and agreed upon, in writing, by the Board of Directors of the Authority and the enterprise.

APPROVED by the Board of Directors
on this 6th day of November, 1985.

Joe Nix, Ph.D.
Secretary, Board of Directors
Arkansas Science & Technology Authority

FILED with the Secretary of State on
the 8th day of November, 1985.

Louis Ramsay
Chairman of the Board of Directors
Arkansas Science & Technology Authority