THE VENTURE CAPITAL AUTHORITY PROGRAM
MOST FREQUENTLY ASKED QUESTIONS

WHAT IS THE VENTURE CAPITAL AUTHORITY?
The VENTURE CAPITAL AUTHORITY (VCA) was created by the Colorado Legislature in 2004 with the goal of making seed and early-stage venture capital funds available to small businesses throughout Colorado. The VCA is governed by a board of directors consisting of nine members of which five are appointed by the governor, two are appointed by the president of the senate and two are appointed by the speaker of the house of representatives.

WHY A VCA PROGRAM FOR COLORADO?
The VCA Program is anticipated to create new business opportunities within the state and to stimulate economic growth.

HOW DOES THE VCA PROGRAM WORK?
The State of Colorado is providing $50 Million for this program in the form of *premium tax credits.* High Country Venture, LLC (High Country), which is affiliated with private investment company Tango, will manage an initial investment fund of approximately $25 million with the potential to manage a second $25 million fund, which the VCA raised by selling tax credits to insurance companies. The insurance companies will make cash payments to the VCA on an annual basis. High Country's role for the VCA fund will include identifying and conducting due diligence on prospective companies, negotiating funding terms and providing continuous, board-level guidance to company management.

Interested businesses should review the VCA's minimum eligibility criteria (see below). These minimum requirements are contained in the legislation for this program. Per the legislative requirements, High Country will invest a minimum of 50 percent of the fund in qualified businesses located in designated, economically disadvantaged rural and urban communities. The remaining 50 percent can be used to invest in qualified businesses located anywhere in Colorado. From an industry focus, High Country anticipates devoting 40 percent of the fund for software and other technology companies, another 40 percent for emerging growth companies involved in medical equipment, biomedicine, agribusiness and life sciences and 20 percent for other types of businesses.

Except for the VCA's minimum requirements, High Country has complete flexibility in determining the types of investments it will consider. Colorado businesses seeking funding should contact High Country directly by e-mailing an executive business summary to coloradofund1@tangogroup.com. High Country is led by principals and Tango partners Mark Lupa, Jerome Contro and Chris Marks. The Colorado Office of Economic Development and International Trade provides staffing support to the VCA.

WHEN WILL VCA MONEY BE AVAILABLE TO COLORADO BUSINESSES?
June 2005 is the earliest time frame that High Country will begin investing in qualifying Colorado businesses as a result of this Program.

HOW DOES A COLORADO BUSINESS "QUALIFY" UNDER THIS PROGRAM?

The VCA's minimum requirements state that a business must generally meet the following conditions as of the time of High Country's first investment in the business to "qualify":

1. the business must be headquartered in Colorado and its principal business operations must be located in Colorado *or* the business must have entered into a contract to comply, within nine months after finalization of the contract, with the Headquarters/Principal Business Operations' requirements and the contract must contain enforceable provisions requiring a return of any investment of Certified Capital and any other revenues required to be paid in the event of noncompliance with any of the statutory requirements contained in the definition of a Qualified Business or any contract provisions.

   Headquartered is defined as the chief location of a business from which its policies are made and orders are issued. Principal business operations is defined as being more than 50% of the business' total assets are physically present in Colorado and more than 50% of the business' net income is allocable to Colorado in accordance with Colorado income tax law regardless of whether the business is taxable or tax-exempt for Colorado income tax purposes and more than 75% of the business' existing total salaries, wages and/or other compensation are paid to Colorado employees (calculated on a full-time equivalent basis);
2. the business must meet the United States Small Business Administration's (SBA) definition of a "small business concern" which is contained in the SBA's small business size regulations (available on-line at http://www.sba.gov/size/;
3. the business must not be predominantly engaged in any of the following business activities: professional services provided by accountants, doctors, or lawyers; banking, lending, real estate development, insurance, oil and gas exploration, direct gambling activities (does not include ancillary gambling businesses such as manufacturers of gaming equipment and others as defined by the VCA); or making loans to or investing in High Country or its Affiliates;
4. the business has not and will not receive investments from Colorado Fund I, LP's certified capital that exceeds fifteen percent ($3,264,961.20) of Colorado Fund I, LP's aggregate total of certified capital ($21,766,408);
5. the business must maintain its business in Colorado for at least five years after first receiving an investment of Certified Capital and must have entered into a contract to comply with this requirement. The contract shall contain enforceable provisions requiring a return of any investment of certified capital and any other revenues required to be paid in the event of noncompliance with this five-year maintenance requirement or any contract provisions;
6. High Country determine that the business is one which meets its general investment criteria; and
7. other requirements, as applicable, based on High Country's investment structure.

ONCE A BUSINESS IS CLASSIFFIED AS A QUALIFIED BUSINESS DOES IT ALWAYS REMAIN A QUALIFIED BUSINESS FOR FURTHER CERTIFIED CAPITAL INVESTMENT?

Any Business Classified as a Qualified Business at the time of the first Qualified Investment in the Business shall remain classified as a Qualified Business, and may receive continuing Qualified Investments. The continuing investments shall be Qualified Investments even though the Business may not meet the definition of a Qualified Business at the time of the Continuing Investments; except that, to remain a Qualified Business and to receive continuing Qualified Investments, a Qualified Business shall comply with Section 24-46-201(8)(a)(V), Colorado Revised Statutes (maintenance of Headquarters and Principal Business Operations) for at least 5 years after an initial Qualified Investment.

WHAT IS A QUALIFIED INVESTMENT?

Qualified Investment means, subject to the exception provided for Qualified Rural Businesses, that an investment of Certified Capital in a Qualified Business or Qualified Rural Business, as applicable, shall be for the purchase of any debt, debt participation, equity, or hybrid security, including a debt instrument or security that has the characteristics of debt but provides for conversion into equity or equity participation instruments, including, but not limited to, options or warrants except that Certified Capital shall be used to make Seed and Early-Stage Investments in Qualified Businesses or Qualified Rural Businesses, as applicable.

Seed and Early-Stage Investment is defined as the first investment from a professional venture capital firm to a Qualified Business. A seed investment is made to a Qualified Business that has not yet fully established commercial operations or that involves continued research and product development. An early-stage investment is made to a Qualified Business for product development or initial marketing, manufacturing, or sales activities.

HOW DOES A BUSINESS QUALIFY FOR A LOAN?

The business must have received two written loan rejection letters from two different commercial banks headquartered or chartered in Colorado that make Small Business Loans, one of which shall be a preferred lender designated by the federal Small Business Administration. Any such loan shall not be made through or in connection with any guaranteed loan program. Additionally, the business must have received a loan rejection letter from the state's Business Loan Funds, which serves the geographical area of the business (if applicable). A current list of the Business Loan Funds and their respective geographical service areas may be obtained from the Colorado Office of Economic Development and International Trade's (OEDIT's) website. Rejection letters must include specified certifications and statements. The rejection letters apply to funding provided in the form of debt or instruments with debt-type characteristics.

HOW CAN A QUALIFIED BUSINESS EXPEND THE INVESTMENT OF CERTIFIED CAPITAL RECEIVED?

The Qualified Business or Qualified Rural Business in which the investment is made shall expend the Qualified Investment within Colorado except that this limitation shall not be deemed to preclude the purchase of services or goods from outside of Colorado if such services are performed and such goods are used in Colorado.

WILL THE PROGRAM HELP BUSINESSES LOCATED IN RURAL PARTS OF THE STATE? WHAT DEFINES A RURAL PART OF THE STATE?

The legislature set-aside 25% of the funds for use in rural areas only. The legislation defined rural. A Qualified Business located in a Designated Rural County shall mean a Prospective Business which is located in the following 49 counties and in a state designated Enterprise Zone within the state of Colorado: Alamosa, Archuleta, Baca, Bent, Chaffee, Cheyenne, Clear Creek, Conejos, Costilla, Crowley, Custer, Delta, Dolores, Elbert, Gilpin, Grand, Gunnison, Hinsdale, Huerfano, Jackson, Kiowa, Kit Carson, Lake, La Plata, Las Animas, Lincoln, Logan, Mesa, Mineral, Moffat, Montezuma, Montrose, Morgan, Otero, Ouray, Park, Phillips, Pitkin, Prowers, Pueblo, Rio Blanco, Rio Grande, Routt, Saguache, San Juan, San Miguel, Sedgwick, Washington and Yuma. he following do not qualify as a designated rural county for the purposes of this program: Adams, Arapahoe, Broomfield, Boulder, Denver, Douglas, Eagle, El Paso, Fremont, Garfield, Jefferson, Larimer, Summit, Teller, Weld. A list of local Enterprise Zone Administrators is available on-line at www.AdvanceColorado.com.

WILL THE PROGRAM HELP BUSINESSES LOCATED IN DISTRESSED URBAN COMMUNITIES WITHIN THE STATE? WHAT DEFINES A DISTRESSED URBAN COMMUNITY?

The legislature set-aside 25% of the funds for use in distressed urban communities. A Qualified Business located in a Distressed Urban Community shall mean a Prospective Business which is located in the following 15 counties and in a state designated enterprise zone within the state of Colorado: Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas, Eagle, El Paso, Fremont, Garfield, Jefferson, Larimer, Summit, Teller and Weld. A list of local Enterprise Zone Administrators is available on-line at www.AdvanceColorado.com.

For additional information, please contact:

High Country Venture, LLC
Mark Lupa, Jerome Contro or Chris Marks
coloradofund1@tangogroup.com

OR

Colorado Office of Economic Development
Business Finance Division
1625 Broadway, Suite 1700
Denver, CO 80202
(303) 892-3840
www.AdvanceColorado.com

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